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Monthly Insights: July Outlook

# Utilities Sector

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# Sector Price Action & Performance Review: Utilities



The Utilities sector underperformed the broader market in June amid a shifting macroeconomic and policy landscape. The S&P 500 Utilities Index declined modestly, weighed down by macro-driven rotations and rising concerns over policy uncertainty both on budget and ESG backlash.

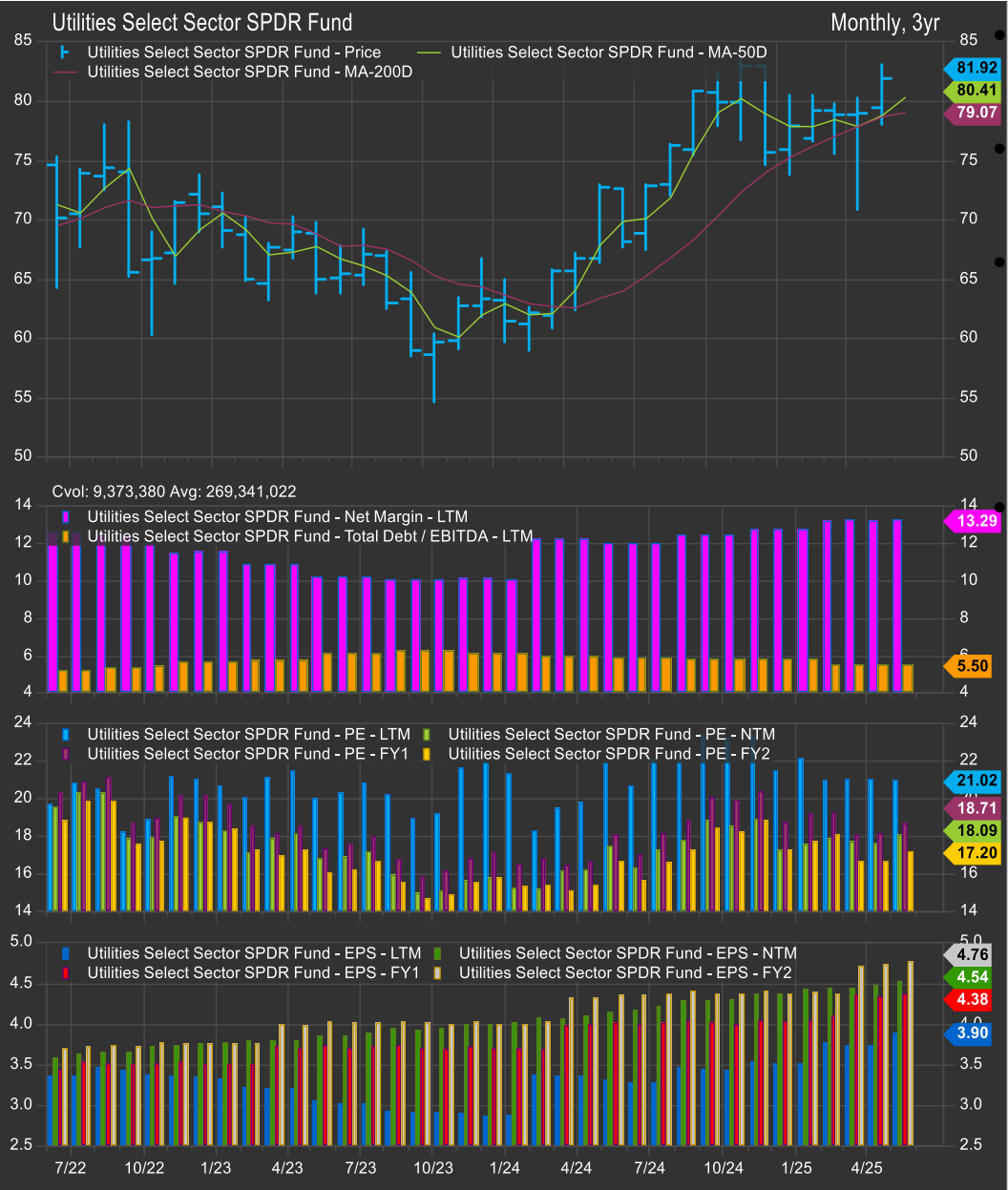
From a technical perspective the sector continued to retrace gains from Q1. Increasing risk appetite resulted in investors rotating towards higher beta exposures particularly in the technology sector. Oscillator studies have pulled back from overbought conditions and the MACD is close to a buy signal. However, given the sector’s inability to outperform despite falling rates, we maintain a negative outlook heading into July.

At the stock level, bull market leader VST has reestablished its uptrend and we would expect that higher momentum names in the sector will outperform lower momentum names.

Utilities struggled in June due to macro rotation, cost concerns from tariffs, and fiscal policy uncertainty, despite supportive rates. The sector may regain ground if economic data softens further, Fed rate cut expectations hold, and fiscal clarity emerges. Watch for earnings commentary on cost inflation and capex plans, and policy headlines around reconciliation and trade. At present the path of least resistance for equities is higher and we’re betting on continued preference for “risk on” exposures.

We start July with an **UNDERWEIGHT** allocation to the Utilities Sector of **-0.84%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

# Fundamentals: Utilities Sector

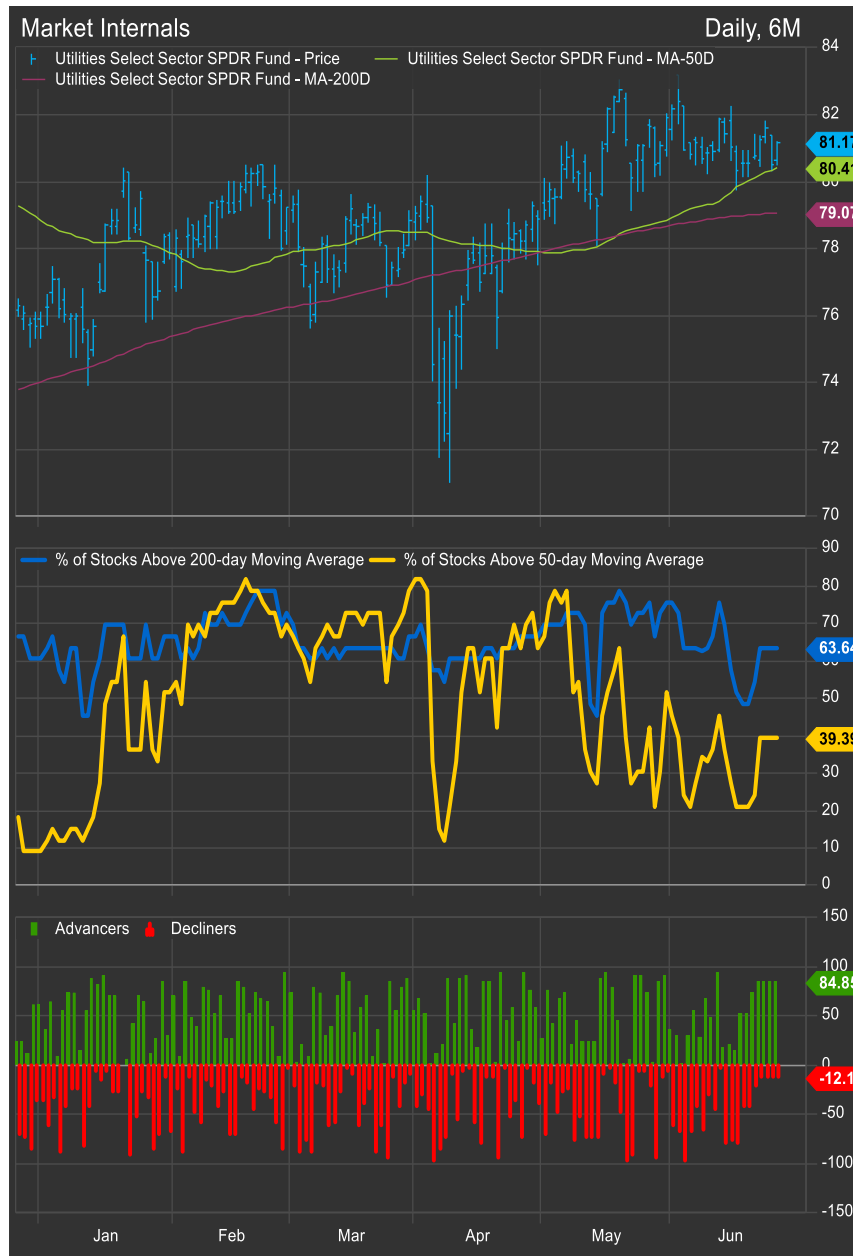


- The chart (left) shows S&P 500 Utilities Sector Margins, Debt/EBITDA, Valuation and Earnings
- Net Margin continues to expand for the sector into 2025 (chart, panel 2) While total debt to Ebitda has declined modestly
- Valuation (chart, panel 3) got lofty on a trailing 12-month basis as the sector 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
- Overall we see And improving fundamental position for the sector But a high valuation relative to history.

# Industry Performance and Breadth: Utilities



6/30/2025



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**Utilities Industries** (chart, left): The independent power industry (VST) has made gains against the sector and the S&P 500 while all other industries within the Utilities sector have lagged since equities put in their low in early April

**Utilities Sector Internals** (chart, right): Lack of upside participation for the average utility stock is evident in the % above 50 day moving average series showing an inability to get over the 50% threshold since early May

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	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
VST	Vistra Corp.	Bullish Reversal	66,183.3	1.08	38.3	0.3	1.70	15.3
AES	AES Corporation	Support	7,631.8	0.20	-13.3	4.3	0.73	5.6
PEG	Public Service Enterprise Group Inc	Consolidation	41,676.3	0.81	-3.9	2.0	0.60	2.8
NEE	NextEra Energy, Inc.	Consolidation	145,936.4	0.75	-5.2	2.1	0.49	1.4
NRG	NRG Energy, Inc.	Uptrend	31,803.7	0.79	44.9	0.7	1.36	-0.7
CEG	Constellation Energy Corporation	Bullish Reversal	100,346.8	1.26	29.8	0.3	1.23	-1.0
EVERG	Evergy, Inc.	Consolidation	15,717.5	0.66	-3.2	2.6	0.52	-1.2
NI	NiSource Inc	Bullish Reversal	18,814.0	0.83	-4.4	1.9	0.63	-1.8
SO	Southern Company	Consolidation	99,904.1	0.83	-4.4	2.1	0.36	-1.9
DUK	Duke Energy Corporation	Consolidation	90,876.9	0.72	-5.8	2.4	0.41	-2.8

At the stock level the story in June for Utilities was the reemergence of Vistra Corporation which regained its long term uptrend

With equities continuing to reflate most stocks in the sector retraced earlier gains with decliners outnumbering advancers roughly 10:1 in June

Outside of trending stocks VST and CEG most utilities have traded with high correlation as investors treat them as a commodity for safe haven exposure

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
PCG	PG&E Corporation	Retracement	30,745.6	0.36	-27.8	0.5	0.48	-22.2
EIX	Edison International	Downtrend	19,611.4	0.34	-22.5	4.3	0.88	-12.5
ED	Consolidated Edison, Inc.	Consolidation	35,363.1	0.68	-11.2	2.3	0.35	-8.8
FE	FirstEnergy Corp.	Consolidation	23,028.5	0.61	-7.9	2.9	0.51	-8.1
CNP	CenterPoint Energy, Inc.	Consolidation	23,739.7	0.81	-5.1	1.6	0.58	-7.1
AWK	American Water Works Company, Inc.	Consolidation	26,896.0	0.94	-8.7	1.6	0.64	-7.1
WEC	WEC Energy Group Inc	Consolidation	32,912.2	0.77	-7.9	2.3	0.53	-7.0
SRE	Sempra	Consolidation	49,147.6	0.64	-6.4	2.3	0.80	-6.9
PNW	Pinnacle West Capital Corp	Consolidation	10,572.8	0.75	-9.6	2.7	0.57	-6.7
DTE	DTE Energy Company	Consolidation	27,313.2	0.71	-7.7	2.2	0.46	-6.6

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

- **Rate Volatility & Treasury Rally:** Treasury yields saw sharp declines mid-month, particularly at the long end of the curve (e.g., 30-year yields dropped 10–11 bps on June 5), following weaker-than-expected U.S. economic data (notably, the ADP payrolls report and ISM Services). While lower yields typically benefit rate-sensitive sectors like utilities, investor preference shifted toward growth and AI-linked names, limiting relative performance gains for defensives.
- **Inflation & Stagflation Fears:** The Fed’s Beige Book reported “slight” economic contraction and persistent inflation pressures, with widespread uncertainty across sectors. The ISM Services Prices Paid index jumped to its highest level since November 2022, suggesting continued input cost pressures. Several Fed officials flagged the potential for a “stagflationary” environment due to tariffs, which raised concern for regulated utilities facing higher cost pass-through hurdles.
- **Fiscal Uncertainty:** Debate around the GOP reconciliation bill intensified, with the **CBO estimating it would add \$2.42T to the deficit over 10 years**. Rising deficit concerns may elevate future Treasury yields and could reduce support for capital-intensive sectors like utilities. The sector remains sensitive to changes in government support and tax treatment under broader fiscal legislation.
- **ESG Backlash & Regulatory Pressure:** BlackRock (BLK) was removed from Texas’s restricted list after rolling back ESG commitments. This symbolic move reflects broader scrutiny of ESG-focused investments, which could pressure capital access for utilities reliant on sustainable infrastructure mandates. Regulatory ambiguity around emissions and energy transition policy remains a lingering overhang.
- **Rates Still Critical:** Market expectations for ~60 bps of Fed cuts by year-end support a more constructive rate backdrop. If July’s employment and inflation data confirm slowing momentum, utilities could see renewed interest as a defensive yield proxy. However, this will depend on follow-through in long-end yield compression.
- **Tariff Impact Monitoring:** Rising energy and infrastructure costs—fueled by tariff uncertainty—could weigh on utilities’ cost structures, particularly for those sourcing imported components or fuel. Investors should monitor guidance and margin commentary during July earnings season, especially from utilities with unregulated operations.
- **Policy Catalysts:** With the reconciliation bill likely advancing in July, utilities may be impacted by tax credit reforms, particularly for renewable energy and grid modernization projects. At the same time, any de-escalation in trade tensions or further clarity on rare-earths policy from China may ease cost pressure for power equipment inputs.

# 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) \* 0.2**

*Plus*

**3-Month Excess Total Return (vs. S&P 500) \* 0.5**

*Plus*

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

# 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.