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Monthly Insights: August Outlook

Utilities Sector

Patrick Torbert, CMT

Editor & Chief Strategist

Sector Price Action & Performance Review: Utilities

The Utilities sector stabilized in July after retracing a majority of its Q1 gains. There are some signs of investors pausing their binge on higher beta stocks off the April lows. Coincidentally, our oscillator studies are for the Utilities sector are strengthening with the MACD (chart, panel 3) showing a tactical buy signal for the sector

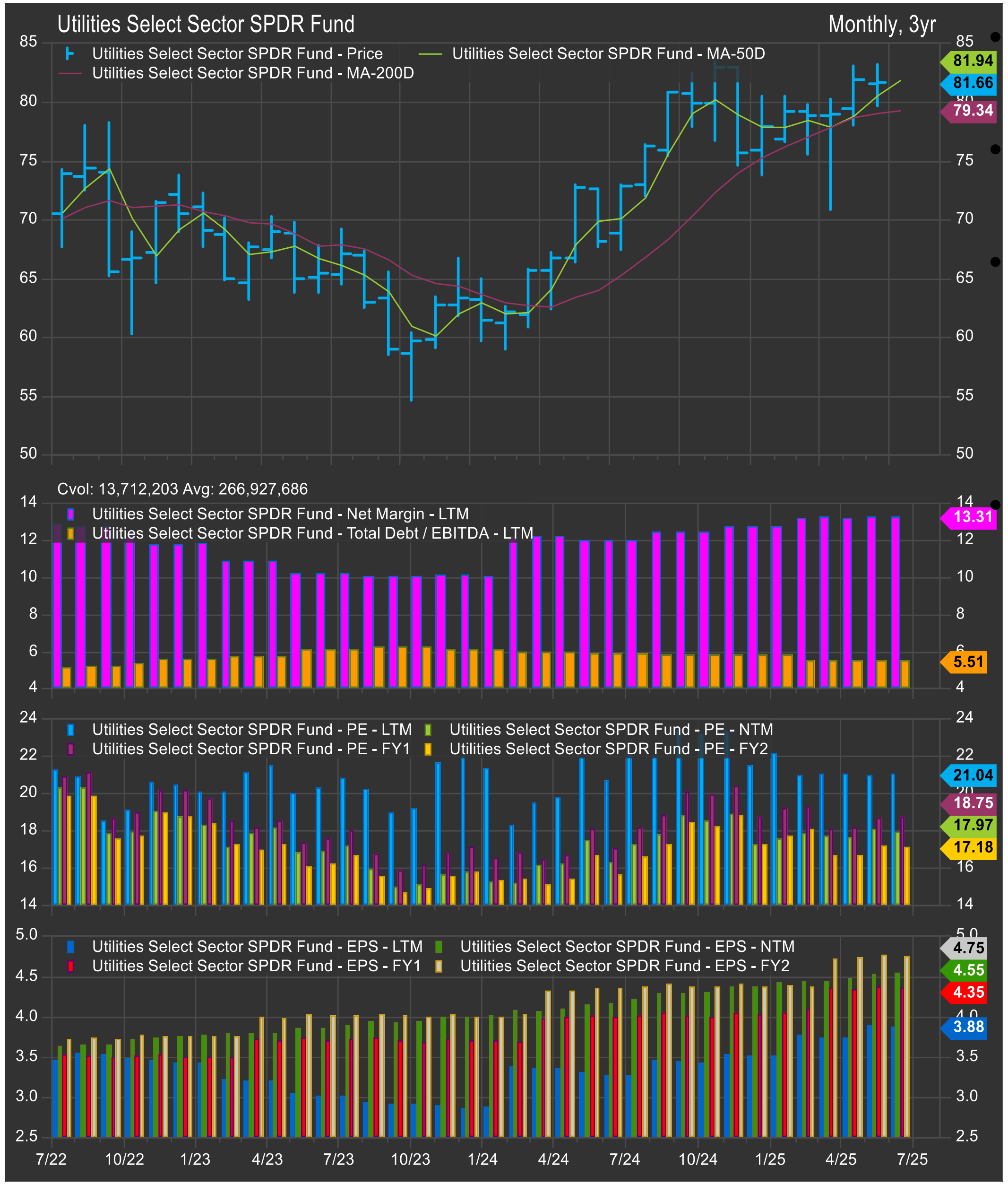
From a technical perspective, the Utilities sector was challenged by firming risk appetite off the April lows which moved the S&P 500 to all-time highs. Now that the S&P 500 is pulling back from overbought territory, we are seeing some re-entry into the sector

At the stock level, bull market leader VST has reestablished its uptrend while more typical Utilities have firmed in the near-term as well improving the internal strength of the trend and suggesting the sector could pivot higher in the near-term.

High labor costs and a tight labor market remain a headwind to the sector, and we are skeptical that it can sustain outperformance over the long-term if equities continue in a bull trend. However, we think the improving technicals the emergence of bullish themes linked to nuclear and AI power demand are emerging tailwinds. The sector is our downside hedge for August in the event stocks consolidate gains at the index level.

We start August with a tactical overweight allocation to the Utilities Sector of 3.85% 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 an improving fundamental position for the sector But a high valuation relative to history.

Industry Performance and Breadth: Utilities

Utilities Industries (chart, left): The independent power industry (VST) continued to make gains against the sector and the S&P 500 while all other industries within the Utilities sector stabilized in July, as there is some evidence buyers are pausing their binge for high beta exposure

Utilities Sector Internals (chart, right): Internals improved materially in July as the sector moved to new 52-wk price highs…we think there is a potential for near-term rotation back into some lower vol. securities

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
AES	AES Corporation	Consolidation	9,561.1	0.25	18.7	3.6	0.79	22.0
PPL	PPL Corporation	Consolidation	26,761.4	0.77	-4.7	2.0	0.66	4.6
SRE	Sempra	Consolidation	52,923.6	0.68	-2.9	2.1	0.76	4.4
ETR	Entergy Corporation	Bullish Reversal	38,011.5	0.86	-1.8	2.0	0.49	3.7
LNT	Alliant Energy Corporation	Consolidation	16,568.5	0.78	-2.5	2.1	0.52	3.6
XEL	Xcel Energy Inc.	Consolidation	41,722.9	0.73	-3.8	2.1	0.36	3.4
AEP	American Electric Power Company, Inc.	Consolidation	58,344.8	0.72	-4.3	2.2	0.55	3.3
PEG	Public Service Enterprise Group Inc	Consolidation	44,216.2	0.85	-1.1	1.9	0.57	2.8
NI	NiSource Inc	Bullish Reversal	19,854.2	0.87	-1.2	1.8	0.61	2.2
WEC	WEC Energy Group Inc	Consolidation	34,667.5	0.81	-5.3	2.2	0.51	2.1

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
NRG	NRG Energy, Inc.	Uptrend	31,256.3	0.75	25.1	0.7	1.22	-5.0
PCG	PG&E Corporation	Retracement	30,745.6	0.36	-21.5	0.5	0.18	-3.1
PNW	Pinnacle West Capital Corp	Consolidation	10,730.4	0.76	-10.3	2.7	0.53	-1.8
NEE	NextEra Energy, Inc.	Consolidation	148,166.1	0.75	-4.7	2.1	0.57	-1.8
VST	Vistra Corp.	Uptrend	67,187.7	1.05	23.0	0.3	1.70	-1.8
EVRG	Evergy, Inc.	Consolidation	16,039.6	0.67	-5.4	2.5	0.50	-1.2
AWK	American Water Works Company, Inc.	Consolidation	27,486.9	0.95	-7.4	1.5	0.67	-1.1
DUK	Duke Energy Corporation	Consolidation	92,874.5	0.74	-7.5	2.3	0.39	-1.1
ATO	Atmos Energy Corporation	Bullish Reversal	24,796.0	0.82	-7.4	1.5	0.72	-0.9
CEG	Constellation Energy Corporation	Uptrend	103,590.7	1.25	17.1	0.3	1.18	0.0

AES led the sector in July, bouncing from long-term support

Most names in the sector traded in a tight range with some of the strongest names (VST, CEG, NRG)on the lows list, retracing recent gains

Metrics:

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

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valueation

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

Earnings & Operating Trends

Q2 earnings reports from Utilities were largely positive, benefiting from favorable **weather, load growth, and regulatory recovery mechanisms**:

- **~70% of large-cap regulated utilities beat on EPS**, with modest upside revisions concentrated in **transmission & distribution (T&D) names** and **renewable rate base operators**.
- **Customer usage increased YoY**, driven by above-average temperatures in the Midwest and Southeast, lifting demand in residential and small commercial segments.
- Cost pressures persisted from **maintenance backlogs and fuel input inflation**, but most operators cited **constructive regulatory environments** allowing for timely cost recovery.

Rate Cases, Regulation & FCC Policy

Multiple utilities cited **favorable outcomes in recent rate cases**, particularly around **grid modernization and wildfire prevention capex**:

- Several filings in July allowed **multi-year capital recovery plans**, aiding near-term ROE stability.
- The **FCC's broadband infrastructure guidelines (released July 15)** drew attention from **grid operators and rooftop lease aggregators**, given new provisions encouraging **co-location of fiber/broadband infrastructure with electric utility right-of-way and poles**.
- Utilities are also exploring upside from **rural digital deployment subsidies** and **interconnectivity credits** under revised **DOE/FCC pilot programs**.

Energy Transition & Fuel Inputs

Natural gas utilities faced modest margin compression as **tariff-linked price increases in imported LNG components** (particularly cryogenic valves and turbines) hit procurement schedules:

- At least two gas-heavy utilities flagged **3–4% supply chain cost increases YoY**, though hedging strategies and regulated cost-recovery models blunted full impact.
- **Ongoing electrification efforts** (notably EV infrastructure and AI data center grid loads) supported forward growth assumptions for electric utilities in the **Mid-Atlantic, Texas, and California**.

Solar and wind deployment timelines remain **mostly on track**, but **tariff uncertainty around inverters and panel components from the EU and China** continues to pressure future procurement cycles.

Interest Rates & Capital Access

Utilities benefited from **July's Treasury rally**, which sent the **10Y yield down ~13bp**, lowering near-term funding costs for capital-intensive operators:

- Average sector **WACC expected to compress modestly** in Q3, helped by Fed hold and flattening yield curve.
- **Refinancing pipelines and project-level bond issuances** were cited as increasingly attractive in analyst commentary.

Labor & Grid Capacity Pressures

Utilities continued to struggle with **labor shortages in line and technical crews**, particularly in wildfire-prone or hurricane-sensitive regions:

- BLS and JOLTS data show **openings for utility-sector skilled labor at ~5-year highs**, with some projects facing **delays of 6–9 months** due to workforce availability.
- Wage growth for skilled utility workers remained **above 6% YoY**, weighing slightly on O&M forecasts despite cost-recovery mechanisms.

August 2025 Outlook

August 1: U.S. tariffs on EU industrial equipment and grid components (including aluminum and steel housing for T&D infrastructure) set to take effect—utilities expected to disclose updated procurement adjustments in August 10-Ks or IR calls.

August 5–7: FCC follow-up hearings on rural broadband rollout could catalyze **joint-utility projects** and co-funded fiber-to-grid initiatives.

Late August: Treasury's quarterly refunding and July PCE data will influence **Fed cut odds and yield levels**, a key sensitivity for Utilities.

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.