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Monthly Insights: October Outlook

Utilities Sector

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Sector Price Action & Performance Review: Utilities



The Utilities Sector finishes September with a very slight gain vs. the S&P 500. Its performance has diverged positively from other low vol. sectors and remains our preferred defensive hedge when the Elev8 portfolio is in risk-on mode as it is to start September.

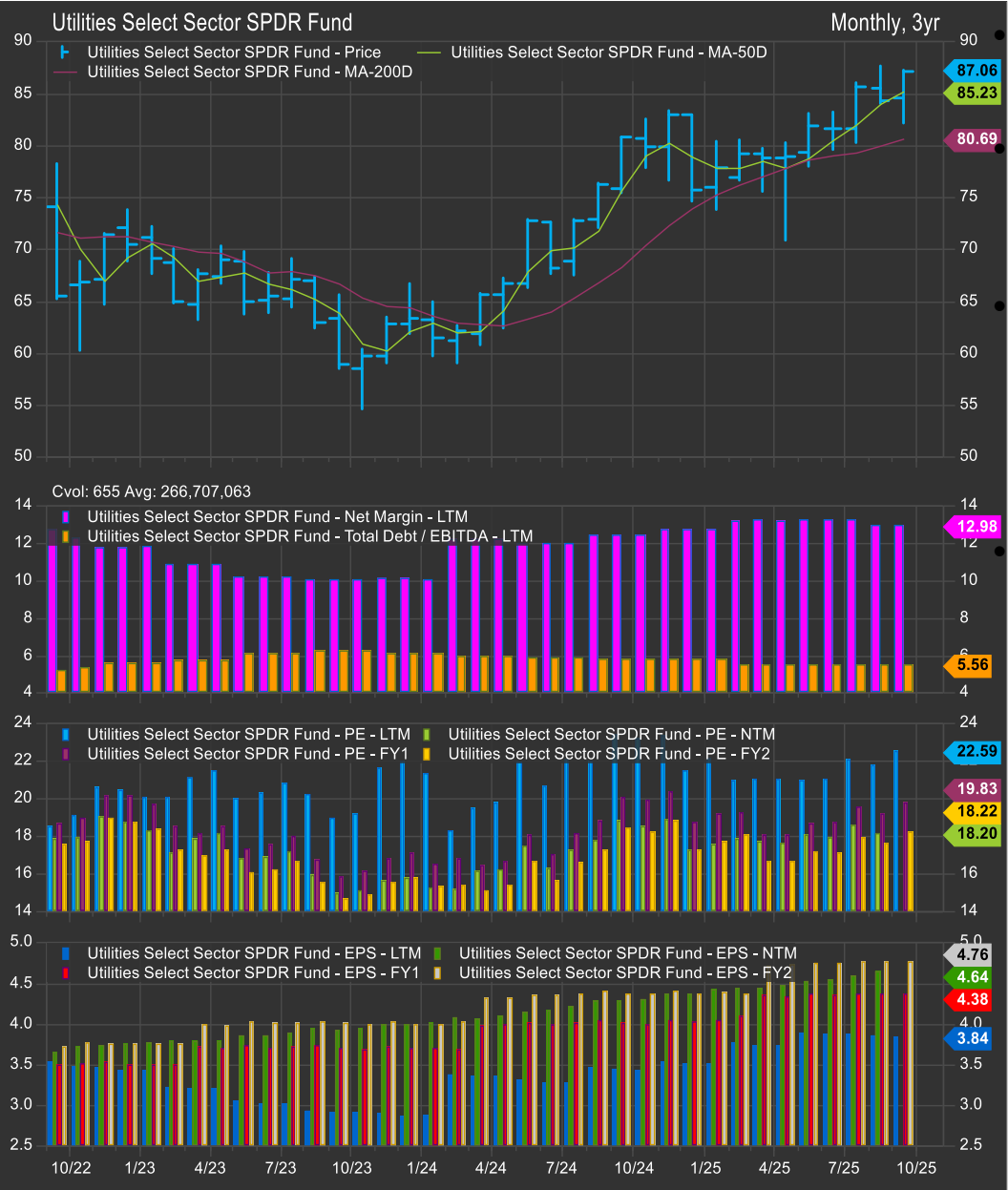
From a technical perspective our oscillator studies are signaling near-term strength with the MACD study on a tactical buy signal to start October. At the industry level, legacy stocks firmed towards month end after speculative names (CEG, VST) were boosted earlier. Nuclear continues to be the “juice” play within the sector. Among large caps, that’s VST, but down cape names like OKLO are where the speculative action is.

From a fundamental perspective, AI electricity demand is a key tailwind to the sector. Fed easing is also a bullish catalyst, particularly if capacity constraints lead to a capital spending cycle. This may balance out cost pressures from tariff implementation.

We also like the sector as a hedge given the moderating cadence of economic data prints over the last several months. Investors are betting on the Fed to do what is necessary to support the economy, but if things go sideways, Utilities provide good ballast as a cheap source of earnings and income with the sector paying a dividend yield >2x that of the S&P 500.

We start October with a tactical overweight allocation to the Utilities Sector of 2.21% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Utilities Sector



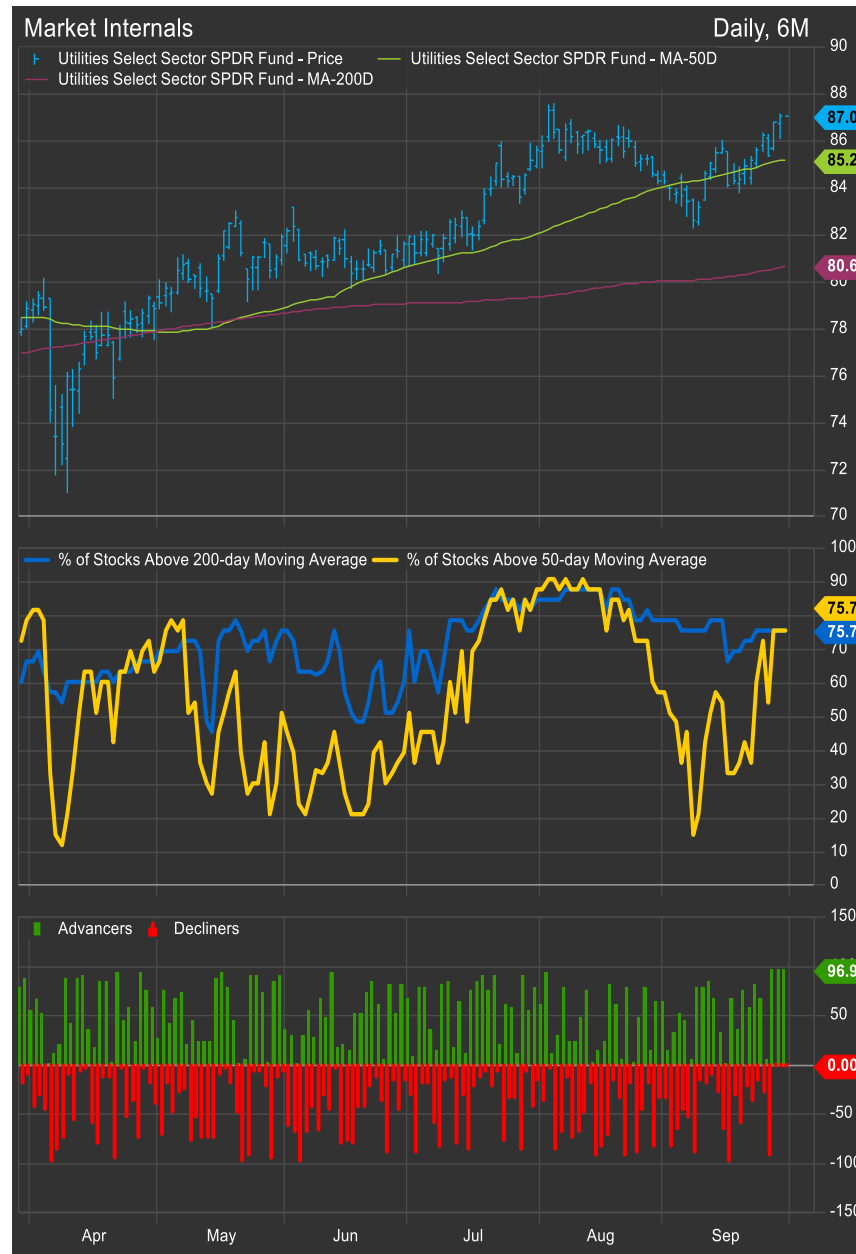
The chart (left) shows S&P 500 Utilities Sector Margins, Debt/EBITDA, Valuation and Earnings

Net Margin at the sector level ticked lower over the past month (chart, panel 2) While total debt to EBITDA remains at low levels

Valuation (chart, panel 3) got lofty on a trailing 12-month basis ...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 sector started weak and ended strong in September with legacy industries gaining towards month's end and Indy Power retracing

The sector has been strong relative to other low vol. sectors, but the longer-term performance trends remain weak since April

Utilities Sector Internals (chart, right): Internals show a stable trend which is in sharp contrast to the volatility and weakness seen in other low vol. sector internals.

Utilities remain our defensive hedge of choice when the Elev8 portfolio is in a risk-on stance

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
NRG	NRG Energy, Inc.	Uptrend	32,606.6	0.79	13.0	0.7	1.49	11.1
XEL	Xcel Energy Inc.	Bullish Reversal	46,888.3	0.79	6.6	1.9	0.39	8.2
ES	Eversource Energy	Consolidation	25,892.7	0.57	3.3	2.8	0.80	7.4
SRE	Sempra	Consolidation	57,802.5	0.73	8.4	2.0	0.75	6.5
WEC	WEC Energy Group Inc	Consolidation	36,322.6	0.83	-0.3	2.1	0.54	3.9
VST	Vistra Corp.	Uptrend	70,210.3	1.05	11.1	0.3	1.76	3.2
NEE	NextEra Energy, Inc.	Consolidation	156,197.4	0.79	-1.3	2.0	0.55	2.9
ETR	Entergy Corporation	Bullish Reversal	41,181.2	0.88	1.2	1.8	0.54	2.4
FE	FirstEnergy Corp.	Consolidation	26,231.5	0.69	3.3	2.6	0.35	2.0
EVRG	Evergy, Inc.	Support	17,047.6	0.71	-0.5	2.4	0.52	1.7
CEG	Constellation Energy Corporation	Uptrend	103,487.5	1.19	6.6	0.3	1.38	1.4
CNP	CenterPoint Energy, Inc.	Consolidation	25,337.7	0.84	-2.2	1.5	0.52	1.3
AEE	Ameren Corporation	Consolidation	27,608.9	0.78	-3.0	1.8	0.53	0.8
DTE	DTE Energy Company	Consolidation	28,919.1	0.74	-3.7	2.1	0.47	0.6
SO	Southern Company	Consolidation	103,987.5	0.84	-4.4	2.1	0.28	0.2
D	Dominion Energy Inc	Consolidation	51,487.7	0.68	-1.0	2.9	0.80	-0.3
ATO	Atmos Energy Corporation	Bullish Reversal	27,040.2	0.86	-0.2	1.4	0.67	-0.5
LNT	Alliant Energy Corporation	Consolidation	16,978.0	0.79	-1.9	2.0	0.55	-0.7
ED	Consolidated Edison, Inc.	Consolidation	35,928.1	0.68	-8.4	2.3	0.29	-0.8
PPL	PPL Corporation	Consolidation	27,155.0	0.77	-2.3	2.0	0.68	-1.1
NI	NiSource Inc	Retracement	20,044.3	0.86	-3.1	1.7	0.64	-1.3
CMS	CMS Energy Corporation	Consolidation	21,504.3	0.76	-6.3	2.0	0.39	-1.4
EXC	Exelon Corporation	Consolidation	44,530.3	0.64	-6.5	2.4	0.27	-1.5
DUK	Duke Energy Corporation	Consolidation	95,663.4	0.75	-4.4	2.3	0.39	-1.8
EIX	Edison International	Consolidation	21,169.7	0.36	-4.1	3.9	0.85	-1.8
PEG	Public Service Enterprise Group Inc	Consolidation	41,074.3	0.77	-8.4	2.0	0.59	-1.9
PCG	PG&E Corporation	Retracement	32,901.6	0.38	-7.4	0.4	0.23	-2.4
AES	AES Corporation	Consolidation	9,427.5	0.24	5.4	3.5	1.00	-4.1
AEP	American Electric Power Company, Inc.	Consolidation	58,367.5	0.71	-4.9	2.3	0.62	-4.7
PNW	Pinnacle West Capital Corp	Consolidation	10,361.5	0.75	-11.2	2.8	0.63	-5.2
AWK	American Water Works Company, Inc.	Consolidation	27,563.9	0.91	-11.4	1.6	0.68	-6.9

Longer-term momentum standouts CEG and VST improved in September while NRG has emerged as a leading stock in the sector as well

Laggards included water utility AWK and many other legacy plays, though the sector was a positive standout relative to other low vol. sector exposures which continue to be the laggard cohort along with commodities adjacent stocks

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

The Utilities sector in September was shaped by a mix of **demand growth from AI-driven electricity needs, tariff spillovers, and interest rate dynamics**. PG&E announced a **\$73B grid spending plan** to meet surging demand from data centers, underscoring how AI adoption is forcing utilities to accelerate capex cycles. This comes amid growing consensus that U.S. data-center electricity consumption could rise **15–20% annually over the next several years**. At the same time, the Trump administration expanded Section 232 tariffs to cover **medical devices, robotics, and industrial machinery**—all inputs into grid modernization and renewable projects—raising the risk of higher equipment costs. Policy risks also surfaced in the ongoing government shutdown negotiations, where utilities flagged potential delays in permitting or federal program funding if agencies furlough staff.

Rates remained an overhang. Treasury yields fluctuated through the month, with long-end yields falling ~8bp across the week of 8-Sep but rising again mid-month before easing into quarter-end (10Y closing September near 4.25%). The curve flattened late in the month, with the **2s30s spread narrowing to its tightest in nearly two months**. Given utilities' bond-proxy status, these yield swings directly influenced sector flows.

Earnings and Company Developments

PG&E (PCG): Announced a **\$73B capex plan** over the next decade, largely tied to grid hardening and meeting surging demand from AI-linked data centers. Spending levels are roughly **40% higher than its prior plan**, reflecting the magnitude of new demand pressures.

CenterPoint Energy (CNP): Slightly raised FY25 EPS guidance and reiterated FY26 outlook while unveiling a **10-year strategic plan** focused on regulated infrastructure investment. Guidance implied EPS CAGR in the mid-single digits, in line with sector averages despite cost inflation.

Oklo (OKLO): Initiated overweight at Barclays, with analysts citing the company's unique position in **small modular reactors (SMRs)**. Note, however, regulatory approval timelines and capital intensity remain major constraints for commercialization.

Sector Trends

Utilities were not insulated from **tariff-related input cost pressures**, particularly in transmission equipment, transformers, and robotics. Rising **capex requirements** highlight the capital-intensive nature of the sector: S&P 500 Utilities sector capex is tracking **~15% higher YoY in 2025**, the fastest growth rate since 2011. At the same time, margins are being pressured by financing costs—although recent Treasury rallies offered some relief, utilities remain highly sensitive to Fed policy, with markets now pricing ~40bp in additional cuts for 2025 but expectations being dialed back from early September levels (~75bp).

From a performance perspective, Utilities outperformed into month-end as investors rotated into defensives. On 26-Sep, the sector gained **+1.59%**, the best among S&P 500 groups, helped by flows into dividend-paying, lower-volatility names. However, on 25-Sep Utilities underperformed, down **(0.97%)**, highlighting continued volatility linked to yield movements and tariff news.

Outlook

The Utilities sector enters October positioned between **structural growth and cyclical headwinds**. Demand from AI and data centers is a long-term positive, but comes with higher costs and financing risks. Tariff exposure to imported machinery and robotics could add incremental pressure to margins, while the outcome of government shutdown negotiations may affect regulatory approvals and project timelines. Still, Utilities' role as a **defensive, yield-oriented sector** provides ballast in volatile equity markets. With a current **S&P 500 weight of ~2.5%** and a **dividend yield ~3.4% (vs. 1.6% for the index)**, the group offers income and partial exposure to secular AI-linked demand, even if it is not a pure-play AI beneficiary.

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.