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Monthly Insights: January Outlook

Utilities Sector

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Sector Price Action & Performance Review: Utilities



The Utilities Sector corrected in December as investors rotated into cyclical stocks to get ahead of the Fed. Despite interest rates staying flat to lower in December, the sector starts 2026 at oversold conditions and near chart support at the \$42 level on the XLU chart (left).

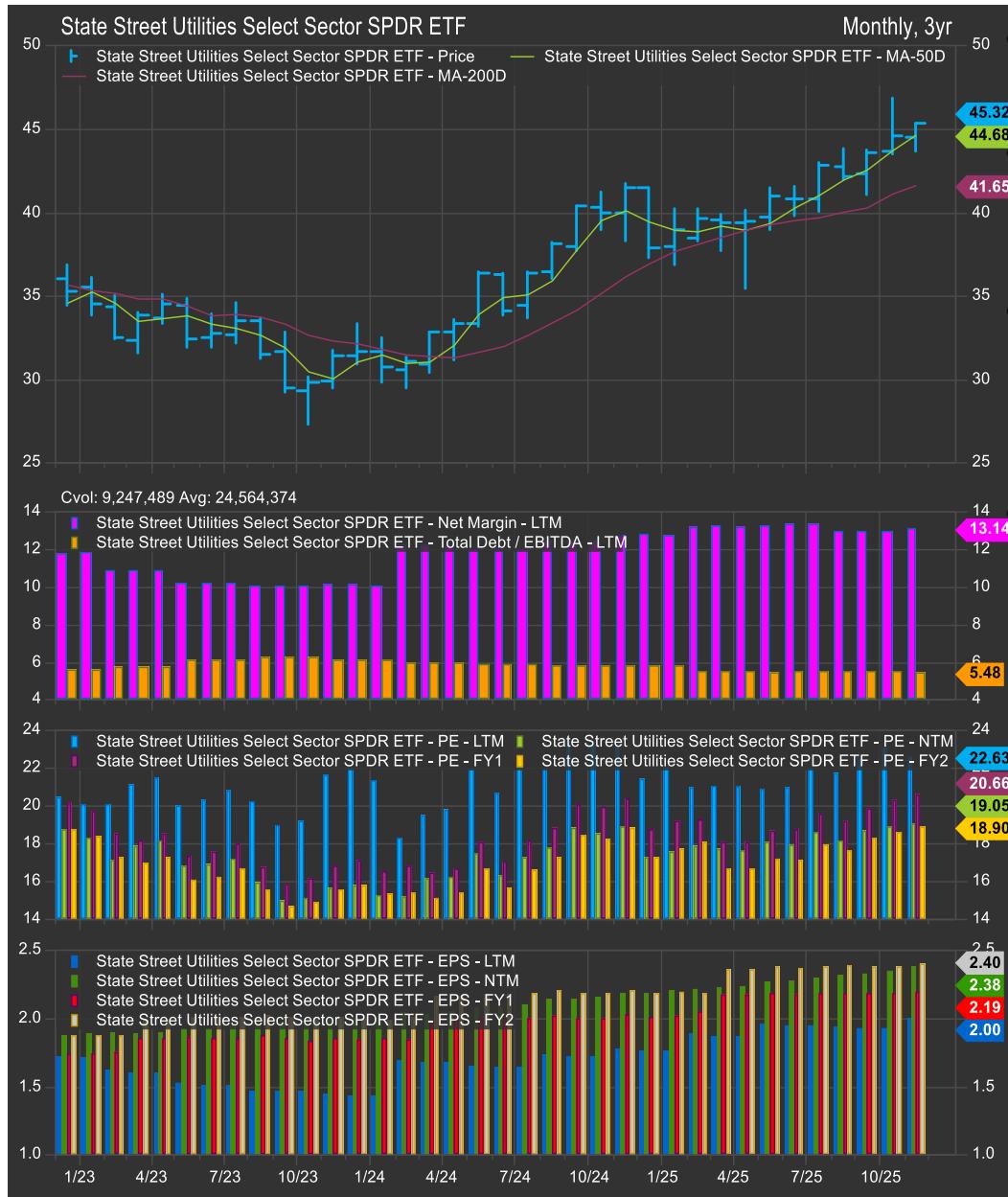
From a fundamental perspective, a lack of earnings catalysts has been a headwind. With the Fed. continuing to support the economy, investor risk appetite has shifted higher while longer duration yields also moved higher in December.

With the Fed supporting the economy and the December CPI coming in light, low vol. exposures like Utilities saw persistent outflows. A resilient retail season spiked it for the risk on crowd.

With inflation temporarily sidelined as a concern, we've added more beta to the Elev8 portfolio as well.

We start January out of the Utilities Sector with a resulting **UNDERWEIGHT of **-2.23%** 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 are just off highs for the past 12-months (chart, panel 2) While total debt to EBITDA remains at low levels

Valuation (chart, panel 3) is lofty on a trailing 12-month basis ...and is creeping higher in out years as well as company level forward guidance has softened.

Overall, we think the sector will be useful if inflation dynamics complicate the picture for the Fed and the consumer is left to go it alone.

Industry Performance and Breadth: Utilities



Utilities Industries (chart, left): Water Utes were the best of a bad bunch in December as investors rotated away from safety to start the month

Utilities Sector Internals (chart, right): Internals washed out as consensus firmed around easing. Tactically we'd expect some firming sooner than later

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 |
|--------|---------------------------------------|------------------|-----------|---------------------------------|----------------|-------------------------------|------------------------|-------------------------------|
| EIX | Edison International | Consolidation | 23,125.7 | 0.39 | 5.4 | 3.6 | 0.58 | 1.1 |
| ES | Eversource Energy | Consolidation | 25,212.7 | 0.54 | -4.6 | 3.0 | 0.82 | 0.2 |
| AWK | American Water Works Company, Inc. | Downtrend | 25,551.4 | 0.86 | -7.3 | 1.6 | 0.41 | -0.3 |
| AES | AES Corporation | Bullish Reversal | 10,062.3 | 0.25 | 6.8 | 3.3 | 0.79 | -0.4 |
| PCG | PG&E Corporation | Consolidation | 35,144.6 | 0.39 | 1.1 | 0.4 | 0.03 | -1.7 |
| ED | Consolidated Edison, Inc. | Consolidation | 35,927.5 | 0.66 | -4.0 | 2.3 | -0.03 | -1.8 |
| CEG | Constellation Energy Corporation | Uptrend | 111,902.9 | 1.27 | 0.8 | 0.3 | 1.77 | -2.6 |
| PNW | Pinnacle West Capital Corp | Consolidation | 10,636.9 | 0.76 | -3.8 | 2.7 | 0.31 | -3.1 |
| PEG | Public Service Enterprise Group Inc | Consolidation | 40,276.7 | 0.73 | -7.0 | 2.1 | 0.44 | -3.5 |
| PPL | PPL Corporation | Consolidation | 26,053.6 | 0.73 | -6.7 | 2.0 | 0.46 | -4.7 |
| CNP | CenterPoint Energy, Inc. | Consolidation | 25,083.2 | 0.81 | -5.2 | 1.5 | 0.36 | -4.8 |
| SO | Southern Company | Consolidation | 96,390.7 | 0.77 | -9.4 | 2.2 | 0.15 | -4.9 |
| ATO | Atmos Energy Corporation | Bullish Reversal | 27,299.8 | 0.82 | -3.6 | 1.6 | 0.51 | -5.2 |
| ETR | Entergy Corporation | Bullish Reversal | 41,591.6 | 0.85 | -3.1 | 1.6 | 0.30 | -5.4 |
| D | Dominion Energy Inc | Consolidation | 50,594.4 | 0.66 | -5.3 | 3.0 | 0.80 | -5.5 |
| DTE | DTE Energy Company | Consolidation | 26,924.0 | 0.67 | -9.7 | 2.2 | 0.38 | -5.5 |
| NI | NiSource Inc | Consolidation | 20,008.8 | 0.82 | -6.2 | 1.8 | 0.42 | -5.9 |
| NRG | NRG Energy, Inc. | Uptrend | 30,846.3 | 0.70 | -7.6 | 0.7 | 1.72 | -6.0 |
| AEE | Ameren Corporation | Consolidation | 27,119.8 | 0.75 | -6.2 | 1.9 | 0.32 | -6.0 |
| DUK | Duke Energy Corporation | Consolidation | 91,390.7 | 0.70 | -7.6 | 2.4 | 0.18 | -6.1 |
| SRE | Sempra | Bullish Reversal | 58,029.9 | 0.70 | -2.2 | 2.0 | 0.74 | -6.4 |
| WEC | WEC Energy Group Inc | Consolidation | 34,393.4 | 0.76 | -9.0 | 2.2 | 0.36 | -6.6 |
| LNT | Alliant Energy Corporation | Consolidation | 16,816.4 | 0.77 | -5.2 | 2.1 | 0.40 | -6.8 |
| EVRG | Evergy, Inc. | Consolidation | 16,817.1 | 0.68 | -5.7 | 2.4 | 0.42 | -6.9 |
| FE | FirstEnergy Corp. | Consolidation | 25,931.4 | 0.66 | -3.7 | 2.6 | 0.23 | -6.9 |
| AEP | American Electric Power Company, Inc. | Bullish Reversal | 61,832.1 | 0.74 | -0.6 | 2.1 | 0.43 | -7.4 |
| NEE | NextEra Energy, Inc. | Consolidation | 167,171.1 | 0.80 | -0.9 | 1.9 | 0.52 | -7.9 |
| CMS | CMS Energy Corporation | Consolidation | 21,341.9 | 0.73 | -7.7 | 2.1 | 0.18 | -8.0 |
| EXC | Exelon Corporation | Consolidation | 44,079.0 | 0.62 | -6.6 | 2.4 | -0.07 | -8.3 |
| XEL | Xcel Energy Inc. | Consolidation | 43,844.9 | 0.72 | -8.6 | 2.1 | 0.17 | -10.0 |
| VST | Vistra Corp. | Retracement | 54,835.5 | 0.74 | -20.0 | 0.4 | 1.85 | -10.3 |

Performance was almost uniformly negative at the stock level. Fed easing was taken as a clear “risk-on” prompt by investors despite low vol. stocks historically outperforming when rates move lower.

VST continues to retrace as more speculative exposures like nuclear have come under pressure into year end

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

The Utilities sector in 2025 was shaped primarily by **interest-rate volatility, regulatory dynamics, and accelerating power-demand growth tied to electrification and data centers**. As a traditionally rate-sensitive, income-oriented sector, Utilities faced valuation pressure during periods of rising long-term yields and tighter financial conditions, while rallies in Treasuries periodically provided relief.

Monetary policy uncertainty remained a key driver. Even as inflation moderated through the year, the persistence of higher real yields limited multiple expansion and reinforced investor selectivity within the sector. Utilities increasingly traded less as pure bond proxies and more as **infrastructure assets with differentiated growth profiles**, especially those exposed to incremental electricity demand.

Demand growth and load outlook

A defining structural development in 2025 was **renewed confidence in long-term electricity demand growth**. Power consumption expectations improved as AI-driven data centers, cloud infrastructure, electrification of transportation, and industrial reshoring gained traction. This represented a notable shift from the prior decade, when flat load growth constrained earnings visibility.

Large-cap utilities with regulated exposure to fast-growing regions benefited from improved forward load assumptions, supporting capital investment plans and longer-term earnings growth trajectories. That said, **near-term earnings remained heavily influenced by regulatory outcomes**, cost recovery mechanisms, and financing conditions.

Capital intensity and balance-sheet considerations

Utilities continued to operate in a **highly capital-intensive environment** in 2025. Elevated interest rates increased financing costs for generation, transmission, and grid-modernization projects, placing pressure on free cash flow and dividend coverage for some issuers. As a result, investor focus sharpened around:

Regulatory visibility on rate base growth and allowed returns

Balance-sheet strength and access to capital markets

Discipline in capital allocation and pacing of investment programs

Companies with constructive regulatory frameworks and stronger credit metrics were consistently favored, while those facing regulatory friction or funding gaps underperformed.

Clean energy transition and fuel mix

The energy transition remained an important, but evolving, theme. While renewable generation and grid modernization continued to attract investment, **cost inflation, permitting delays, and intermittency challenges** prompted a more pragmatic approach. Natural gas retained a key role in baseload reliability, while nuclear assets regained strategic relevance amid energy-security concerns and carbon-reduction goals.

Utilities with diversified generation portfolios and flexible capital plans were better positioned to navigate this transition without sacrificing financial stability.

Sector performance dynamics

Relative to the broader S&P 500, Utilities underperformed for much of 2025, particularly during periods of rising yields and strong equity risk appetite. However, the sector demonstrated **defensive characteristics during bouts of volatility**, supported by stable earnings, regulated revenue models, and dividend income.

Performance dispersion widened meaningfully. Growth-oriented utilities tied to expanding load and favorable regulation outperformed traditional slow-growth peers, underscoring the market's shift away from treating the sector as homogeneous.

Policy and regulation

Regulation remained the central determinant of returns. Rate cases, return-on-equity assumptions, and cost-recovery mechanisms directly influenced earnings visibility. At the federal level, energy policy emphasized grid resilience, domestic infrastructure, and decarbonization, though implementation timelines and funding clarity varied by jurisdiction.

Importantly, regulatory bodies increasingly balanced **affordability concerns with the need to support large-scale infrastructure investment**, introducing both opportunities and risks depending on regional oversight.

Outlook for 2026

Looking ahead, the Utilities sector enters 2026 with **improving structural fundamentals but continued valuation sensitivity**:

Interest rates remain pivotal. Any sustained decline in long-term yields would likely act as a meaningful tailwind for valuations and relative performance.

Electricity demand growth is a key upside driver. AI infrastructure, electrification, and industrial investment should support rate-base expansion and earnings growth.

Execution and regulation matter more than ever. Investors are likely to reward utilities with clear regulatory support, balance-sheet flexibility, and disciplined capital programs.

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.