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Monthly Insights: February Outlook

Utilities Sector

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Sector Price Action & Performance Review: Utilities

The Utilities Sector stabilized in January but remained a laggard vs. the S&P 500 (left). Oscillators studies (chart, bottom panels) have come off lows, but have begun consolidating at levels that indicate a lack of buying enthusiasm

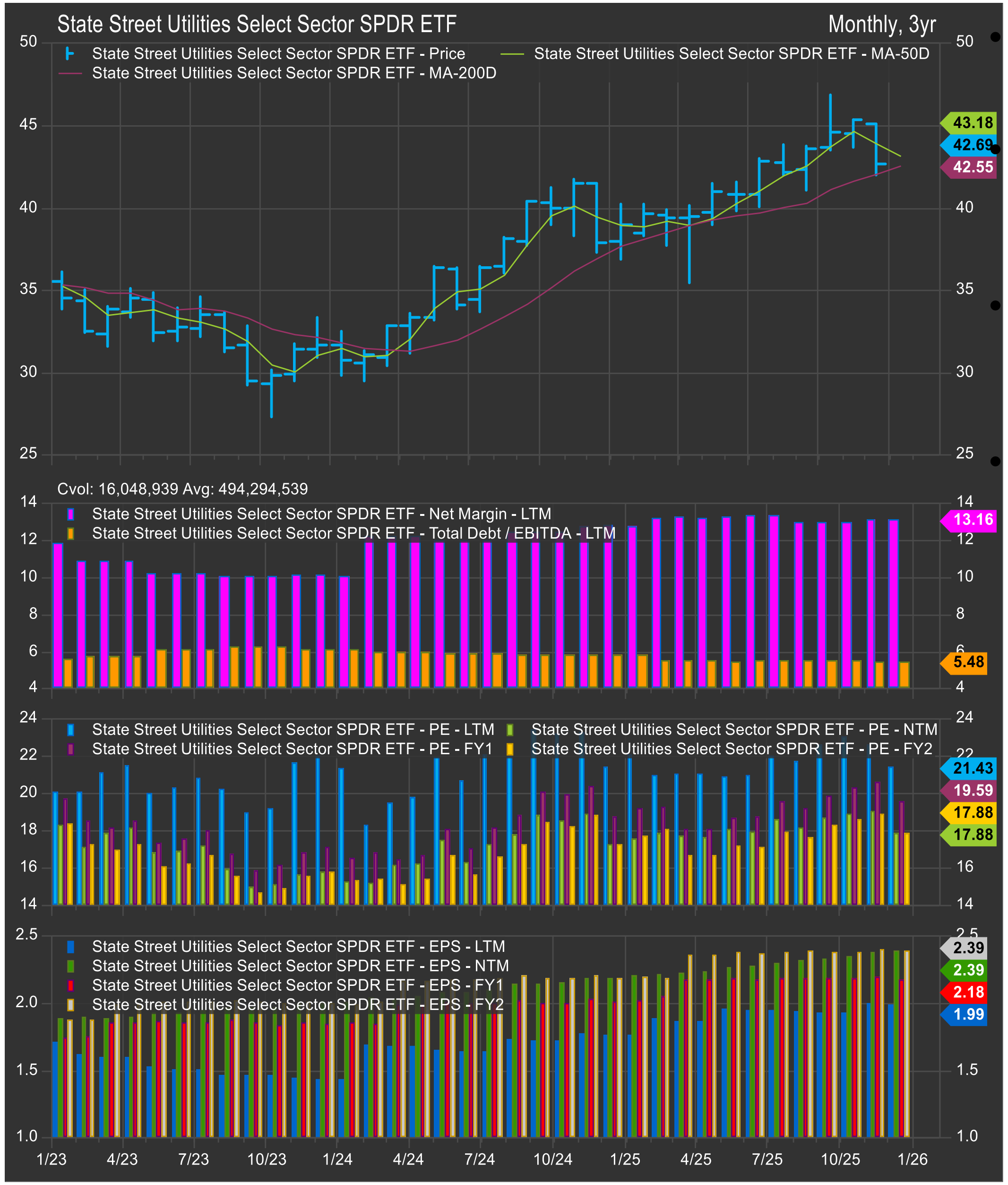
The macro picture has tilted to a headwind for the Utilities sector based on our macro trend studies which look back at sector performance vs. rising and falling rates over the past 30 years. Rising commodities prices, AI infrastructure demand and the Fed's commitment to supporting the business cycle are keep longer-term yields high.

With input prices now moving higher, the only thing missing from an inflationary setup is a higher CPI reading. Those have been tending in the opposite direction over the past 3 months, so not everything is aligned to pressure rates higher. That said with low CPI prints emboldening investors we think the shift towards commodities linked and higher beta assets is likely to continue in the near-term.

We've decided to roll over our underweight from December in the Elev8 portfolio.

We start January out of the Utilities Sector with a resulting UNDERWEIGHT of -2.22% 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 …however the forward picture is improving
- 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): Strength in NEE boosted the Electrical segment after an early month swoon. Multi's are stabilizing in the near-term with Indy's, but there's no dramatic indication of reversal.

Utilities Sector Internals (chart, right): Internals swung dramatically to the positive side on a very gradual move above the 50 and 200-day moving averages at the sector level. We think the direction of interest rates from here will be key, and currently tailwinds are aligning behind higher rates moving forward

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
NEE	NextEra Energy, Inc.	Bullish Reversal	182,374.1	0.87	7.3	1.9	0.59	8.1
AES	AES Corporation	Bullish Reversal	10,817.1	0.26	5.7	3.1	0.89	7.2
NI	NiSource Inc	Bullish Reversal	21,154.1	0.87	2.1	1.7	0.45	5.5
EIX	Edison International	Bullish Reversal	23,953.0	0.41	9.8	3.5	0.56	5.4
PNW	Pinnacle West Capital Corp	Consolidation	11,212.6	0.79	2.5	2.6	0.30	5.2
ED	Consolidated Edison, Inc.	Consolidation	37,963.2	0.70	3.8	2.1	-0.08	5.1
DTE	DTE Energy Company	Consolidation	28,361.2	0.71	-1.7	2.1	0.46	5.0
FE	FirstEnergy Corp.	Consolidation	27,387.1	0.70	3.9	2.5	0.31	4.9
EVRG	Evergy, Inc.	Consolidation	17,645.9	0.72	1.2	2.3	0.60	4.6
PPL	PPL Corporation	Consolidation	27,148.4	0.75	-0.6	2.0	0.52	3.8
WEC	WEC Energy Group Inc	Consolidation	35,795.4	0.79	-2.8	2.1	0.32	3.5
ES	Eversource Energy	Consolidation	26,225.7	0.56	-2.7	2.9	0.95	3.2
CNP	CenterPoint Energy, Inc.	Consolidation	25,977.6	0.83	0.4	1.5	0.34	3.1
ETR	Entergy Corporation	Bullish Reversal	43,087.7	0.88	1.8	1.6	0.28	3.1
AEE	Ameren Corporation	Consolidation	28,017.9	0.77	0.0	1.8	0.37	3.0
AEP	American Electric Power Company, Inc.	Bullish Reversal	63,621.3	0.75	2.5	2.1	0.46	2.2
XEL	Xcel Energy Inc.	Consolidation	44,962.9	0.74	-2.4	2.0	0.23	2.1
EXC	Exelon Corporation	Consolidation	45,220.6	0.63	-3.9	2.4	0.03	2.0
CMS	CMS Energy Corporation	Consolidation	21,850.2	0.74	-2.5	2.0	0.29	1.8
DUK	Duke Energy Corporation	Consolidation	93,506.0	0.72	-3.1	2.3	0.27	1.8
D	Dominion Energy Inc	Consolidation	51,841.1	0.67	0.7	2.9	0.93	1.8
VST	Vistra Corp.	Retracement	56,123.1	0.74	-11.8	0.4	1.95	1.7
LNT	Alliant Energy Corporation	Consolidation	17,032.4	0.77	-2.3	2.0	0.44	0.8
SO	Southern Company	Consolidation	97,260.6	0.77	-6.2	2.2	0.28	0.6
PEG	Public Service Enterprise Group Inc	Consolidation	40,656.1	0.74	-3.1	2.0	0.52	0.5
ATO	Atmos Energy Corporation	Consolidation	26,850.2	0.79	-3.8	1.6	0.45	-2.0
SRE	Sempra	Consolidation	56,639.7	0.68	-4.5	2.0	0.73	-2.8
AWK	American Water Works Company, Inc.	Downtrend	24,797.3	0.83	-7.8	1.7	0.47	-3.5
NRG	NRG Energy, Inc.	Uptrend	29,725.2	0.66	-9.4	0.8	1.44	-4.4
PCG	PG&E Corporation	Consolidation	32,814.8	0.37	-6.6	0.4	0.10	-5.8
CEG	Constellation Energy Corporation	Retracement	89,923.9	0.99	-24.0	0.4	1.76	-20.9

The clear mean-reversion quality of the Utilities sector was on display this month. A majority of names were positive, however as of this writing the sector trails the S&P 500 by just over 100bps MTD in January...the market derated CEG which pulled down the sector.

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

Macro and Policy Backdrop

U.S. Utilities entered late January under sustained pressure as the macro environment continued to **penalize low-growth, rate-sensitive sectors**. While Utilities are traditionally viewed as defensive, the current cycle has been inhospitable: **real yields remain elevated, curve volatility persists, and policy uncertainty has reduced the sector's appeal as a volatility hedge**.

The January FOMC decision did little to help. Although the Fed paused, messaging reinforced a **higher-for-longer bias**, with policymakers signaling patience rather than urgency. This has kept long-duration equity cash flows—particularly Utilities—under valuation pressure. Unlike prior late-cycle periods, Utilities are **not benefiting from falling rates or rising recession odds**, stripping away their traditional defensive bid.

Government policy has also become a meaningful overhang. The White House's affordability agenda—particularly rhetoric around energy pricing, grid costs, and ratepayer protection—has increased perceived **regulatory and political risk**. At the same time, rising geopolitical tensions have pushed capital toward commodities and Energy producers rather than regulated utilities, leaving XLU sidelined in risk-off rotations.

Capital Flows and Relative Positioning

From a flow perspective, Utilities have failed to attract consistent defensive inflows. Instead, the sector has increasingly acted as a **relative underperformer during both risk-on and risk-off phases**. When equities rally, Utilities lag due to low beta and limited earnings growth. When volatility rises, capital has favored **gold, energy, and short-duration defensives** over Utilities. Importantly, Utilities are no longer cheap enough to compensate investors for this underperformance. Dividend yields remain elevated versus the S&P 500, but **the yield spread to Treasuries is insufficient** given balance-sheet leverage, refinancing risk, and muted earnings growth. As a result, Utilities have struggled to justify a meaningful reallocation of capital away from higher-growth or inflation-protected sectors.

Earnings and Fundamentals

Fundamentals across the sector remain stable but uninspiring. Demand is predictable, credit quality is intact, and dividends are generally well-covered. However, **earnings growth is constrained** by regulatory frameworks, rising capital expenditure requirements, and higher financing costs.

The sector's ongoing need to invest heavily in grid modernization, renewable integration, and resilience has pushed capex higher just as borrowing costs have risen. This has compressed free cash flow and increased sensitivity to rate moves. While AI-driven power demand has emerged as a long-term tailwind, the near-term beneficiaries are **unevenly distributed**, and most Utilities lack the flexibility to rapidly monetize this demand.

In short, Utilities are stable—but **stability alone is no longer enough** in a market rewarding growth, pricing power, and balance-sheet agility.

February Outlook: Recommended Sector Tilts

Overweight

Utilities with Direct AI / Data Center Exposure

A narrow subset of Utilities tied to hyperscaler demand, grid interconnections, or long-term contracted power supply for data centers represents the sector's only compelling relative opportunity. These names benefit from **structural demand growth** rather than purely regulated rate bases and should outperform both XLU and traditional Utilities.

Market Weight

Gas-Focused and Transmission Utilities

Companies with exposure to natural gas infrastructure or regulated transmission assets offer more flexibility and modest growth optionality. However, upside remains capped unless long-end yields decline meaningfully. These are **hold-for-income trades**, not sources of alpha.

Underweight (Structural Laggards)

Regulated Electric Utilities and High-Leverage Yield Plays

Traditional electric Utilities with heavy capex requirements, elevated leverage, and limited earnings growth are likely to remain **persistent laggards**. These names face the worst combination of rate sensitivity, political scrutiny, and capital intensity and are unlikely to keep pace with the broader market into February.

Utilities are likely to remain a bottom-quartile GICS sector into February.

Absent a sharp drop in long-term yields or a material spike in recession risk, XLU lacks a credible catalyst for sustained outperformance. The sector is caught between rising capital costs, limited growth, and waning defensive appeal.

Outside of AI-linked power demand and select infrastructure plays, Utilities offer **yield without duration protection and defense without upside**. In the current macro regime, that makes the sector more likely to **lag the S&P 500 and the majority of other sectors**, rather than serve as a portfolio stabilizer.

For now, Utilities should be treated as a **selective income allocation—not a core defensive anchor**—until financial conditions ease or policy dynamics shift decisively in their favor.

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.