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Monthly Insights: April Outlook

Utilities Sector

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Sector Price Action & Performance Review: Utilities



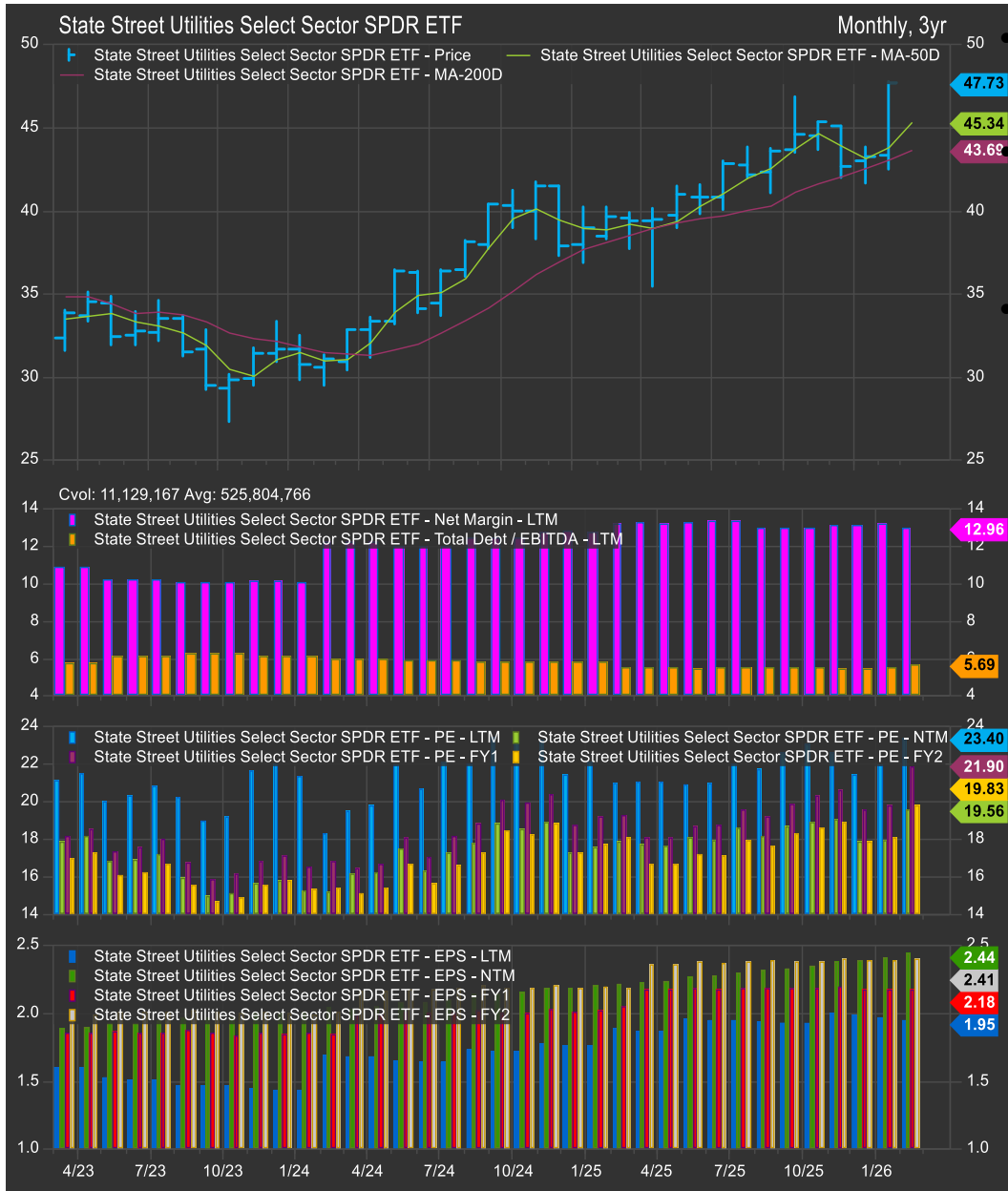
Utilities were one of the clearest winners in a difficult March for equities. With the S&P 500 under broad selling pressure — driven by tariff escalation fears, deteriorating consumer sentiment, and a repricing of growth expectations — capital rotated decisively into defensives. XLU traded near its 52-week high of \$47.80, and the S&P Utilities index has posted approximately 20.25% YTD total return, one of the widest gaps versus the broader market since the 2022 rate shock.

Three factors drove the outperformance. Equity market stress made utilities' predictable cash flows and dividend yields structurally attractive relative to growth and cyclical names facing earnings estimate cuts. Winter Storm Fern generated \$6B in ISO New England wholesale energy transactions, validating regulated cost recovery mechanisms and near-term earnings visibility. Geopolitical risk premium — Iran supply tensions pushed Brent above \$105–\$112, simultaneously benefiting merchant power generators and reinforcing safe-haven rotation into the sector broadly.

Utilities enter April with genuine fundamental support and a favorable macro setup. The AI power demand thesis is real, the haven bid from broader equity stress is active, and regulated earnings provide a cushion against cycle risk. The caution is valuation: at 23x, the sector is priced for a benign outcome across multiple variables simultaneously. Regulated names with contracted hyperscaler load agreements, strong balance sheets, and limited renewable subsidy dependency — think Duke Energy, Constellation Energy, and Entergy — are best positioned to sustain performance. Investors adding exposure here are buying quality defensives in a stressed market, but with limited margin of safety if any of the key supporting conditions shift.

We start April overweight the Utilities Sector with an allocation of +8.02% to the Utilities Sector 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, and lofty valuation is a potential negative for almost every sector relative to historical levels, so it's hard to single out Utilities.

Industry Performance and Breadth: Utilities



Utilities Industries (chart, left): Indy power names which are exposed to the high momentum nuclear power trade gave up some ground in March, while the rest of the sector's industries outperformed.

Utilities Sector Internals (chart, right): Internals are strong relative to other sectors as risk-off rotation to close to month has Utilities stocks rising in absolute terms as well as relative to the S&P 500 index.

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
ETR	Entergy Corporation	Bullish Reversal	49,774.5	1.24	20.7	1.52	0.23	9.9
AWK	American Water Works Company, Inc.	Bullish Reversal	26,716.3	1.12	9.7	1.66	0.33	7.9
SRE	Sempra	Bullish Reversal	62,636.9	0.94	12.9	1.78	0.61	7.6
PNW	Pinnacle West Capital Corp	Bullish Reversal	12,053.1	1.04	16.4	2.41	0.29	6.7
DUK	Duke Energy Corporation	Bullish Reversal	101,089.4	0.97	13.8	2.17	0.16	6.7
ED	Consolidated Edison, Inc.	Bullish Reversal	40,350.3	0.92	15.8	2.05	-0.19	6.6
EXC	Exelon Corporation	Bullish Reversal	49,426.2	0.85	14.3	2.23	-0.06	5.8
DTE	DTE Energy Company	Bullish Reversal	30,021.4	0.94	13.2	2.10	0.39	5.5
SO	Southern Company	Bullish Reversal	106,957.8	1.05	11.8	2.04	0.23	5.4
ATO	Atmos Energy Corporation	Bullish Reversal	30,306.8	1.09	12.5	1.41	0.32	5.4
FE	FirstEnergy Corp.	Bullish Reversal	28,914.0	0.92	14.8	2.39	0.28	5.1
WEC	WEC Energy Group Inc	Bullish Reversal	37,227.8	1.03	10.9	2.15	0.25	5.1
CMS	CMS Energy Corporation	Bullish Reversal	23,352.3	0.99	12.0	1.93	0.19	4.9
LNT	Alliant Energy Corporation	Bullish Reversal	18,133.6	1.03	11.7	1.96	0.39	4.8
NEE	NextEra Energy, Inc.	Bullish Reversal	190,433.9	1.14	17.6	1.75	0.66	4.8
EVRG	Evergy, Inc.	Bullish Reversal	18,618.3	0.96	13.7	2.21	0.53	4.8
CNP	CenterPoint Energy, Inc.	Bullish Reversal	27,668.7	1.11	13.3	1.42	0.23	4.7
PPL	PPL Corporation	Bullish Reversal	28,286.7	0.97	10.4	1.97	0.41	4.6
AEP	American Electric Power Company, Inc.	Bullish Reversal	70,366.1	1.03	16.6	1.92	0.37	4.5
NI	NISource Inc	Bullish Reversal	21,998.2	1.12	12.6	1.70	0.42	4.5
AEE	Ameren Corporation	Bullish Reversal	30,052.9	1.02	11.6	1.80	0.32	3.9
D	Dominion Energy Inc	Bullish Reversal	53,500.5	0.85	8.0	2.80	0.79	3.7
PEG	Public Service Enterprise Group Inc	Bullish Reversal	40,253.3	0.93	5.2	2.12	0.50	1.8
XEL	Xcel Energy Inc.	Bullish Reversal	48,718.5	0.95	7.9	1.97	0.14	1.7
EIX	Edison International	Bullish Reversal	27,050.8	0.58	20.5	3.14	0.34	1.4
CEG	Constellation Energy Corporation	Consolidation	109,136.5	1.26	-5.6	0.37	1.72	-1.2
PCG	PG&E Corporation	Bullish Reversal	37,739.1	0.52	10.6	0.71	-0.03	-2.3
ES	Eversource Energy	Consolidation	25,379.8	0.70	4.0	2.97	0.89	-3.1
VST	Vistra Corp.	Consolidation	52,389.6	0.86	-2.6	0.43	2.06	-3.1
NRG	NRG Energy, Inc.	Uptrend	31,646.7	0.78	-4.5	0.89	1.36	-10.1
AES	AES Corporation	Consolidation	9,975.8	0.31	2.9	3.28	0.78	-11.7

Sector remains skewed towards outperformance with previous momentum winners like CEG, VST and NRG remaining under some pressure, while traditional Utilities see inflows

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

Equity Market Pressure — The Haven Bid This is the most important near-term dynamic. Equities are under sustained pressure from tariff uncertainty, slowing earnings revisions, and fading consumer confidence. In this environment, utilities offer something scarce: regulated earnings that don't move with the economic cycle, dividend yields that compete with Treasuries, and capex programs that provide multi-year visibility. Institutional flows into XLU and VPU have accelerated, and the sector is increasingly being treated not as a tactical hedge but as a core defensive allocation. If equity market stress deepens into Q2, utilities are well-positioned to attract continued haven capital — potentially pushing valuations even further above historical norms.

Interest Rates The Fed held at 3.50–3.75% in March, and forward guidance was sufficiently cautious to keep rate expectations anchored. This matters enormously for utilities: rate stability supports dividend valuations, reduces refinancing risk on the sector's substantial long-term debt, and lowers the hurdle rate for capital-intensive grid investment. The risk remains that a stagflationary impulse — slower growth combined with persistent inflation from tariffs or energy prices — complicates the Fed's path and introduces yield curve volatility. Any move in 10-year Treasuries back above 5% would be an immediate headwind, even in a risk-off environment.

Inflation and Energy Costs Brent crude holding at \$105–\$112 on Iran supply risk creates a split outcome across utility business models. Regulated utilities can generally recover fuel cost increases through established pass-through mechanisms, insulating earnings. Merchant and unregulated generators benefit more directly, as higher fossil fuel prices lift wholesale electricity prices in deregulated markets like ERCOT and PJM. The net effect is sector-positive in aggregate, but company-specific outcomes vary materially based on regulatory structure.

AI and Data Center Load Growth The structural demand thesis remains the sector's most powerful long-term re-rating driver. Power demand is forecast to grow 38% between 2020 and 2040, with AI data center buildout the dominant near-term catalyst. Critically, this is no longer a forward projection — EIA generation data already shows incremental fossil load being added in 2025–2026 specifically to serve data-center interconnection queues. Utilities offering AI infrastructure exposure without semiconductor-style earnings volatility have become a favored institutional expression of the AI theme. The key near-term question is whether Q1 earnings confirm contracted interconnection revenue is actually converting from pipeline to recognized income.

Policy Environment

The *One Big Beautiful Bill Act* is the defining policy development of 2026 for the sector, eliminating the majority of federal clean energy subsidies and EV incentives. The practical

consequences are significant:

Renewable-heavy capital programs face materially higher costs of capital, forcing project deferrals or restructuring

Merchant fossil generators benefit from reduced renewable competition and structurally higher wholesale power prices

Regulated integrated utilities face a more complex transition — cost recovery mechanisms provide insulation, but long-term decarbonization commitments now clash directly with the economics of new renewable investment

Asset-light structures — hyperscaler PPAs, grid services contracts — are gaining favor as a way to capture data-center revenue growth while reducing upfront capital exposure

At the state level, rate case outcomes and interconnection tariff decisions will be the decisive variable for individual names in Q2. Several states are introducing new rules to manage speculative interconnection queues, which could delay revenue conversion for utilities with large data-center pipeline exposure.

Valuation

The sector trades at approximately 23x forward earnings — more than two standard deviations above its five-year historical average. This premium is only defensible if the following conditions hold simultaneously:

AI-driven load growth converts from pipeline to contracted revenue on schedule

Interest rates remain range-bound at or below current levels

Regulatory environments stay constructive for cost recovery and grid investment returns

Equity market stress persists, sustaining the haven bid premium

Conditions 1–3 carry meaningful execution risk. Condition 4 is the swing factor: a sustained risk-off environment could push utility multiples even higher in the near term, overriding the valuation concern temporarily. But it also sets up a sharper reversal when sentiment eventually turns.

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.