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Monthly Insights: May Outlook

Utilities Sector

Patrick Torbert, CMT

Editor & Chief Strategist

Sector Price Action & Performance Review: Utilities



The Utilities Select Sector SPDR Fund (XLU) was relatively stable in April, but it did not show the same upside momentum as higher-beta sectors tied to artificial intelligence infrastructure, Financials, Industrials, or Technology. XLU closed March 31 at **\$45.89** and traded around **\$45.68–\$46.25** in the final days of April, leaving the sector roughly flat to slightly lower for the month. At the same time, the fund remained up roughly **9% year-to-date**, preserving its defensive leadership from earlier in 2026.

Technically, XLU looks more like a consolidation than a breakdown. The sector did not collapse despite higher oil prices, elevated Treasury yields, and a broad equity-market rotation toward cyclical and AI-linked growth. However, the ETF also failed to break meaningfully higher. The key range for May is roughly **\$45–\$47**. A move above \$47 would signal renewed investor demand for regulated yield and power-demand growth. A break below \$45 would suggest higher rates and capital-cost concerns are again overwhelming the sector’s defensive appeal.

XLU’s composition is heavily regulated and power-demand oriented. State Street shows the ETF is **65.98% Electric Utilities, 25.74% Multi-Utilities, 4.31% Independent Power and Renewable Electricity Producers, 2.16% Gas Utilities, and 1.81% Water Utilities**. Top holdings include NextEra Energy, Southern Company, Duke Energy, Constellation Energy, American Electric Power, Sempra, Dominion Energy, Vistra, Entergy, and Exelon.

The May outlook for Utilities is **market weight to modest overweight**. The sector is no longer just a defensive bond proxy; it is increasingly a power-demand growth sector. Data centers, electrification, grid modernization, nuclear scarcity value, and transmission investment give Utilities a better medium-term growth story than the sector has had in years.

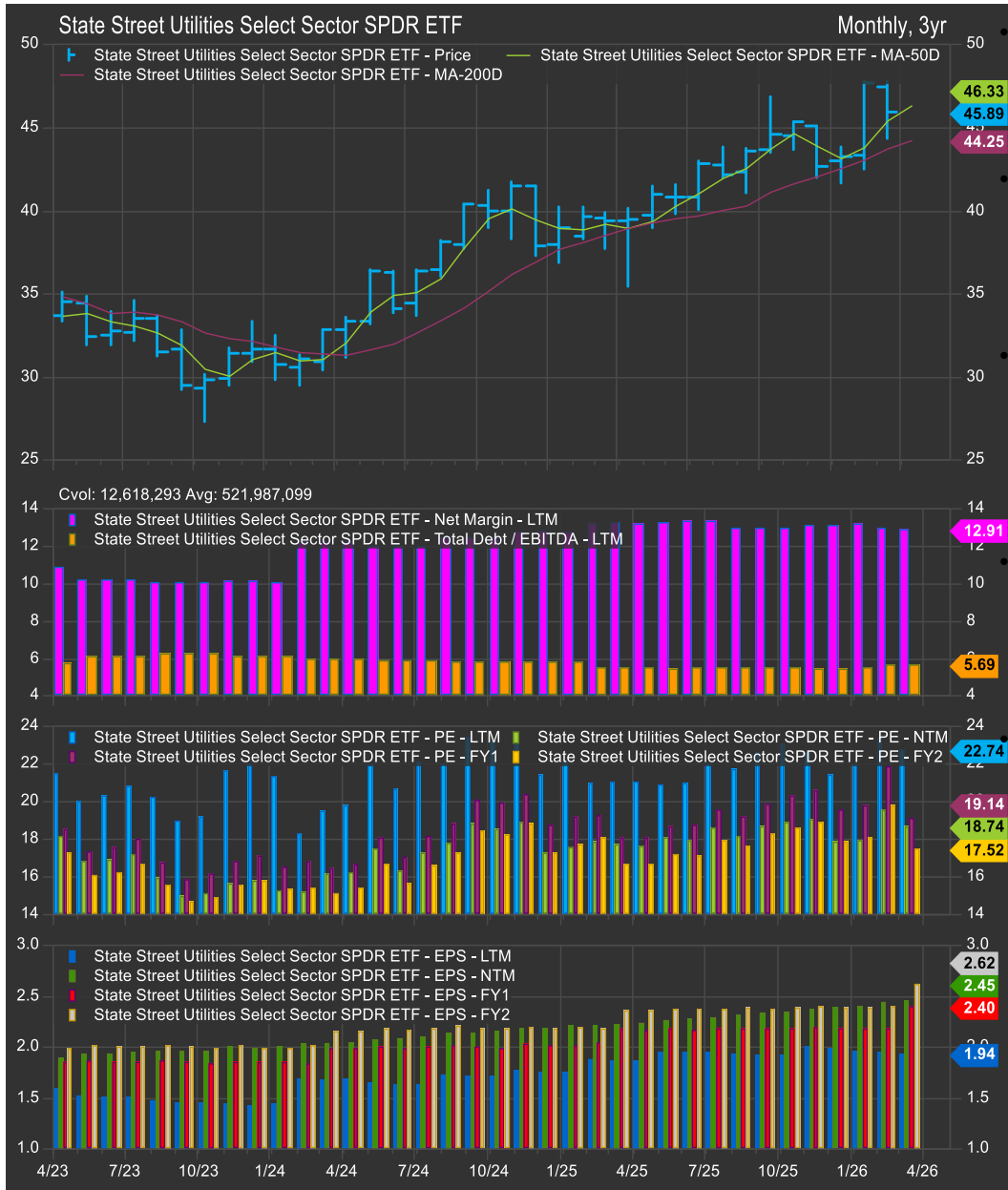
The best-positioned areas are **Electric Utilities, nuclear-exposed power producers, transmission-heavy utilities, and regulated utilities with visible data-center load growth**. NextEra, Entergy, Southern, Duke, American Electric Power, Constellation, Vistra, and Exelon all sit in different parts of this broader power-demand theme.

The more cautious areas are **slow-growth gas utilities, water utilities with premium valuations, and renewable developers without clear cost recovery or long-term contracted revenue**. These groups can still provide stability, but they do not offer the same upside to the AI/data-center power cycle.

Overall, Utilities deserve a **selective positive allocation**. The sector may lag in a full risk-on melt-up led by Technology and cyclicals, but it should outperform if markets turn more defensive or if investors continue to reward electricity-demand growth as an AI infrastructure theme.

We start May overweight the Utilities Sector with an allocation of +1.78% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Utilities Sector



Utilities fundamentals improved structurally in April, even though price action was modest. The sector is increasingly being valued not just as a bond proxy, but as a beneficiary of **electricity demand growth, data-center load, grid investment, power scarcity, and long-cycle capital spending**. That is a significant change from the traditional low-growth utility narrative.

The earnings backdrop is steady rather than explosive. XLU's underlying holdings had an estimated **3-5 year earnings-per-share growth rate of 11.03%**, a forward price-to-earnings ratio of **19.31x**, and 31 holdings as of April 28. That valuation is not cheap for a regulated utility basket, but it reflects the market's willingness to pay more for companies with visible load growth, rate-base growth, clean-energy optionality, nuclear scarcity value, and data-center exposure.

Company-level results reinforce that shift. NextEra Energy reported a strong first quarter, with adjusted earnings per share up **10% year-over-year** and reaffirmed long-term growth guidance, while management highlighted more than 30 data-center power hubs and potential large-scale gas-fired projects in Pennsylvania and Texas. Reuters reported that Florida Power & Light's data-center power-demand pipeline had reached **21 gigawatts**, with more than half in advanced phases for completion by 2028.

Entergy also became a clear example of the new utility growth thesis. Reuters reported that Entergy raised its four-year capital-spending plan by **33% to \$57 billion**, mainly to serve Meta's data-center operations in Louisiana, including seven new natural gas-fired plants with more than **5.2 gigawatts** of capacity. Entergy also said it has additional potential data-center customers representing up to **12 gigawatts** of future demand.

The fundamental risk is that utilities are capital-intensive. Data-center growth is bullish for load and rate base, but it also requires large spending on generation, transmission, distribution, interconnection, and reliability. If regulators allow utilities to earn returns on that capital while protecting ordinary customers, earnings growth can accelerate. If regulators push back on cost recovery or force shareholders to absorb more risk, valuations can compress.

Industry Performance and Breadth: Utilities



4/29/2026

Industry / Group	Approx. XLU Weight / Exposure	April Performance Trend	Fundamental Read	Macro / Policy Sensitivity
Electric Utilities	65.98%	Stable, with improving structural growth narrative	This is the core of the sector and the clearest beneficiary of electricity demand growth. However, high capital needs and rate-case execution are critical.	Sensitive to Treasury yields, Federal Energy Regulatory Commission (FERC) rules, state utility commissions, fuel costs, data-center interconnection policy, and capital spending.
Multi-Utilities	25.74%	Resilient but more mixed	Diversification helps, but growth is often slower than pure electric utilities with strong data-center demand.	Sensitive to gas prices, electric and gas rate cases, decarbonization policy, pipeline policy, and local affordability concerns.
Independent Power and Renewable Electricity Producers	4.31%	Volatile but structurally attractive	Higher upside than regulated utilities, but more volatile because earnings depend on power prices, contracts, fuel costs, and policy.	Sensitive to wholesale power prices, nuclear policy, renewable tax credits, power purchase agreements, data-center contracts, and capacity markets.
Gas Utilities	2.16%	Stable but lower growth	Reliable income profile, but less tied to the AI/data-center electricity growth theme.	Sensitive to natural gas prices, pipeline safety, decarbonization rules, building-electrification policy, and winter weather.
Water Utilities	1.81%	Defensive and low beta	High-quality regulated assets, but slower growth and valuation sensitivity limit upside.	Sensitive to state regulation, infrastructure needs, environmental rules, weather, and affordability concerns.

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	201,256.3	1.10	4.8	1.84	0.59	-6.6
NI	NiSource Inc	Bullish Reversal	23,248.9	1.09	3.6	1.80	0.43	-6.7
NRG	NRG Energy, Inc.	Uptrend	33,215.5	0.74	-6.3	0.90	1.60	-7.4
AEP	American Electric Power Company, Inc.	Bullish Reversal	73,701.8	0.99	6.8	2.05	0.38	-7.9
VST	Vistra Corp.	Consolidation	54,547.1	0.81	-9.0	0.44	2.17	-8.5
PPL	PPL Corporation	Consolidation	29,326.9	0.92	0.3	2.11	0.41	-8.6
PNW	Pinnacle West Capital Corp	Bullish Reversal	12,480.2	0.98	4.0	2.59	0.24	-8.7
AES	AES Corporation	Consolidation	10,325.3	0.29	-6.0	3.51	1.00	-8.7
D	Dominion Energy Inc	Consolidation	55,278.1	0.82	-0.9	3.05	0.76	-8.9
AEE	Ameren Corporation	Bullish Reversal	31,040.5	0.97	1.7	1.94	0.33	-9.0
ETR	Entergy Corporation	Bullish Reversal	51,804.5	1.17	8.3	1.64	0.16	-9.2
DTE	DTE Energy Company	Consolidation	30,908.8	0.89	1.5	2.29	0.39	-9.3
LNT	Alliant Energy Corporation	Consolidation	18,714.7	0.98	1.8	2.13	0.36	-9.4
ATO	Atmos Energy Corporation	Bullish Reversal	30,958.6	1.03	3.2	1.53	0.34	-10.0
XEL	Xcel Energy Inc.	Consolidation	49,608.4	0.89	-2.4	2.16	0.19	-10.4
CNP	CenterPoint Energy, Inc.	Consolidation	28,214.3	1.04	1.3	1.55	0.22	-10.4
ES	Eversource Energy	Consolidation	25,775.5	0.68	-7.1	3.30	0.93	-10.7
CEG	Constellation Energy Corporation	Consolidation	110,757.1	1.19	-6.3	0.41	1.88	-10.8
EVRG	Eergy, Inc.	Consolidation	18,864.9	0.90	0.0	2.42	0.52	-10.8
WEC	WEC Energy Group Inc	Consolidation	36,944.1	0.96	-2.0	2.36	0.22	-10.9
PEG	Public Service Enterprise Group Inc	Consolidation	40,228.4	0.86	-5.7	2.37	0.55	-12.2
CMS	CMS Energy Corporation	Consolidation	23,383.1	0.91	-1.7	2.16	0.18	-12.5
FE	FirstEnergy Corp.	Consolidation	28,677.0	0.84	-1.4	2.69	0.28	-13.1
SO	Southern Company	Consolidation	106,428.8	0.96	-1.9	2.31	0.20	-13.4
DUK	Duke Energy Corporation	Consolidation	99,456.1	0.89	-2.0	2.46	0.15	-13.9
ED	Consolidated Edison, Inc.	Consolidation	40,386.3	0.84	-1.2	2.34	-0.21	-14.0
EIX	Edison International	Bullish Reversal	26,150.5	0.52	3.7	3.68	0.32	-14.4
EXC	Exelon Corporation	Consolidation	48,116.9	0.77	-3.5	2.57	-0.04	-14.8
AWK	American Water Works Company, Inc.	Consolidation	25,907.8	1.01	-4.2	1.90	0.27	-15.2
SRE	Sempra	Consolidation	60,694.6	0.84	-2.5	2.05	0.55	-15.3
PCG	PG&E Corporation	Consolidation	35,808.2	0.46	-2.4	0.86	0.08	-17.2

All-or-nothing sector rotations have been a feature of 2026. The Utilities sector has been another boom or bust sector on a monthly basis.

We're expecting oversold conditions to be accumulated as there is likely to be some market level backing and filling to start May

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

Utilities are being pulled between two powerful forces. On the negative side, the sector remains rate-sensitive, capital-intensive, and exposed to customer affordability concerns. On the positive side, the United States is entering a period of faster electricity demand growth driven by artificial intelligence, data centers, electrification, industrial reshoring, and grid modernization. That makes Utilities one of the most interesting defensive-growth sectors heading into May.

1. Electricity demand growth is the core investment thesis

The most important macro driver for Utilities is rising electricity demand. The U.S. Energy Information Administration (EIA) expects U.S. electricity demand to increase, with the commercial sector leading the growth. The EIA also expects both residential and commercial power demand to rise **3% this summer** versus last summer, while commercial-sector growth reaches **6% in summer 2027**, surpassing residential growth.

This is a major change from the prior decade, when electricity demand growth was often modest. The new demand cycle is being driven by data centers, artificial intelligence workloads, electrification, manufacturing reshoring, heat waves, electric vehicles, and industrial projects. For Utilities, this creates a clearer route to rate-base growth, generation investment, transmission upgrades, and long-term earnings expansion.

The risk is execution. Load growth only benefits shareholders if utilities are allowed to invest capital and earn regulated returns without triggering political backlash over customer bills.

2. Data centers are transforming utility planning

Data centers are now the most important incremental demand source for many utilities. Reuters reported that Entergy raised its capital plan by one-third to support Meta's data-center operations, including new gas-fired generation capacity. NextEra also highlighted a large data-center pipeline at Florida Power & Light and potential large gas-fired projects backed by Japan to support U.S. data-center demand.

This creates a bullish growth opportunity, but it also raises a regulatory question: **who pays for the grid upgrades?** If large technology customers pay for the incremental generation, transmission, and interconnection costs, utilities can grow without forcing household customers to subsidize data-center power. If ordinary ratepayers absorb too much cost, regulators may push back.

That cost-allocation issue is now moving to the federal level. The Federal Energy Regulatory Commission (FERC) said it will act by June 2026 on a large-load interconnection rulemaking designed to address the timely, orderly, and equitable integration of major new electrical loads, including data centers, into the transmission system.

3. Grid investment is becoming a regulated growth engine

Transmission and distribution spending is no longer just maintenance capital. It is becoming a growth engine. Utilities need to connect new loads, support renewable integration, improve reliability, reduce congestion, harden systems against extreme weather, and accommodate industrial and data-center demand.

FERC has emphasized regional transmission planning as a key 2026 priority and highlighted the importance of planning the grid backbone needed to meet growing energy demand while protecting consumers from inefficient or unnecessary transmission spending.

For investors, this is constructive because transmission projects can produce regulated returns and multi-year earnings visibility. The risk is that siting, permitting, cost allocation, and interregional planning remain slow and politically contested. The best-positioned utilities are those operating in jurisdictions where regulators support infrastructure investment and where large-load customers are willing to sign long-term commitments.

4. Higher rates remain the sector's main valuation headwind

Utilities are still rate-sensitive. Higher Treasury yields make utility dividend yields less attractive relative to bonds, raise the cost of debt financing, and pressure valuation multiples. Because utilities fund large capital programs with a mix of debt and equity, higher financing costs can dilute earnings if not recovered through rates.

This is why XLU did not fully break out in April despite the strong data-center narrative. Investors are willing to pay for load growth, but only if they believe utilities can fund capital spending at reasonable costs and earn timely returns through rate cases. A lower-rate environment would likely support a stronger Utilities rating. A renewed rate shock would pressure the sector, especially high-valuation utilities with large capital needs.

5. Customer affordability is becoming a political constraint

Electricity prices are rising, and affordability is becoming a key policy issue. Reuters reported that U.S. consumers face rising electricity prices despite clean-power savings, citing EIA forecasts for electricity demand growth of **1.2% in 2026** and **3.3% in 2027**, while residential electricity prices are expected to rise **5.1% in 2026** and **2.4% in 2027**. Higher gas prices, tariffs, aging infrastructure, and transmission upgrades are among the drivers.

This is a major risk for the sector. Utilities need large capital programs to serve new load, but regulators are sensitive to customer bills. If bills rise too fast, allowed returns, rate-base additions, and cost recovery can become more politically difficult. That is why data-center cost allocation matters so much: the bull case is strongest when hyperscalers and large industrial users fund a meaningful share of the incremental infrastructure they require.

6. Natural gas is becoming more important to reliability

The power-demand boom is increasing interest in natural gas generation. NextEra and Entergy both highlighted gas-fired projects tied to data-center demand, while several utilities and policymakers are prioritizing reliability and dispatchable capacity.

For Utilities, gas generation is practical because it can be built faster than nuclear, can support reliability, and can balance intermittent renewables. However, it also creates exposure to gas-price volatility, emissions policy, pipeline availability, and future carbon regulation. Utilities with diversified generation portfolios—gas, nuclear, renewables, storage, and transmission—are better positioned than those relying too heavily on a single fuel source.

7. Nuclear is gaining strategic value

Nuclear power is increasingly valuable because it provides 24/7 carbon-free baseload electricity. Data-center customers want reliable clean power, and nuclear plants offer scarcity value in a grid under pressure. Constellation and Vistra have benefited from investor interest in nuclear assets, while NextEra has discussed a potential restart of the Duane Arnold nuclear plant to serve Google data centers.

The investment case for nuclear-exposed utilities is strong, but it is not risk-free. Plant restarts, relicensing, uprates, safety reviews, labor, fuel supply, and power purchase agreements all matter. Nuclear can command premium valuations if contracts are long-term and creditworthy. It can disappoint if investors overpay for scarce assets before earnings visibility is locked in.

8. Renewable energy and storage remain important, but the policy setup is more complex

Renewables and storage remain essential to the long-term utility mix, especially for technology customers with clean-power goals. However, financing costs, interconnection delays, tariff uncertainty, tax-credit risk, and changing federal energy policy make the standalone renewables story more complicated.

Integrated utilities are better positioned than speculative renewable developers because they can build renewables as part of regulated capital plans or long-term contracted portfolios. NextEra remains a key example, with both regulated utility growth and renewable development scale. But investors should distinguish between utilities that can earn returns on renewables through regulated or contracted channels and developers exposed to merchant power prices, financing pressure, or tax-credit uncertainty.

9. Environmental regulation has become more favorable for fossil generation, but uncertainty remains

Federal environmental policy has shifted in a more utility-friendly direction for fossil generation. The Environmental Protection Agency (EPA) proposed repealing greenhouse gas emissions standards for fossil fuel-fired power plants under Section 111 of the Clean Air Act, arguing the repeal would support affordable and reliable energy supplies. The EPA also finalized the repeal of specific 2024 amendments to the Mercury and Air Toxics Standards (MATS) for coal- and oil-fired electric utility steam generating units.

This reduces near-term compliance pressure for coal and gas generation, but it does not eliminate long-term uncertainty. Environmental rules are likely to remain politically contested, and utilities must still plan for state climate goals, customer clean-energy preferences, litigation, and future federal policy changes. The practical implication is that the near-term regulatory environment supports reliability and dispatchable generation, but long-term planning still favors diversified portfolios.

10. Extreme weather and grid reliability remain recurring catalysts

Weather remains a major driver of utility earnings, demand, costs, and political risk. Heat waves boost summer electricity demand, while storms and wildfires raise restoration costs and capital needs. Utilities can earn returns on grid-hardening investments, but poor storm response, wildfire exposure, or large customer bill increases can create regulatory and legal risk.

For May, investors should watch summer weather forecasts, reserve margins, regional power prices, and outage risk. A hotter summer would support demand and power prices but could also increase affordability pressure and reliability scrutiny.

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.