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Monthly Insights: June Outlook

Utilities Sector

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Sector Price Action & Performance Review: Utilities



The S&P 500 Utilities sector remains challenged by the macro setup heading into June. The long-term investment case has improved materially because electricity demand is no longer structurally stagnant. Data centers, AI compute, electrification, industrial reshoring, grid modernization and nuclear scarcity value are creating a more durable growth narrative for select utilities. However, the near-term equity setup is less straightforward. The sector is still rate-sensitive, affordability-sensitive and politically regulated, and it is competing for capital in a market where investor risk appetite remains focused on AI, Technology, Industrials and inflation-sensitive cyclicals.

Using VPU as the reference ETF, the technical setup is mixed but not unattractive. In the 5/28 return and flow data, VPU is up **3.23% over one week** and **1.10% over one month**, but down **1.27% over three months** and up only **4.33% over six months**. Its **41.1 RSI** is one of the least extended readings among the Vanguard sector ETFs, suggesting that Utilities are not crowded and could respond well to a defensive rotation or a rates-led relief rally. Flows are constructive, with approximately **\$47 million of one-month inflows**, **\$394 million year-to-date inflows** and **\$1.01 billion of one-year inflows**. That flow profile suggests investors are recognizing the long-term power-demand story, even if the sector has not yet established consistent leadership.

Technically, the flow profile is better than the price profile. Positive flows over one month, year to date and one year suggest investors are willing to build exposure to the power-demand theme despite uneven performance. This is different from traditional defensive positioning. Historically, Utilities inflows often reflected risk-off or yield demand. Today, at least part of the inflow appears tied to the AI power-demand narrative.

June Outlook

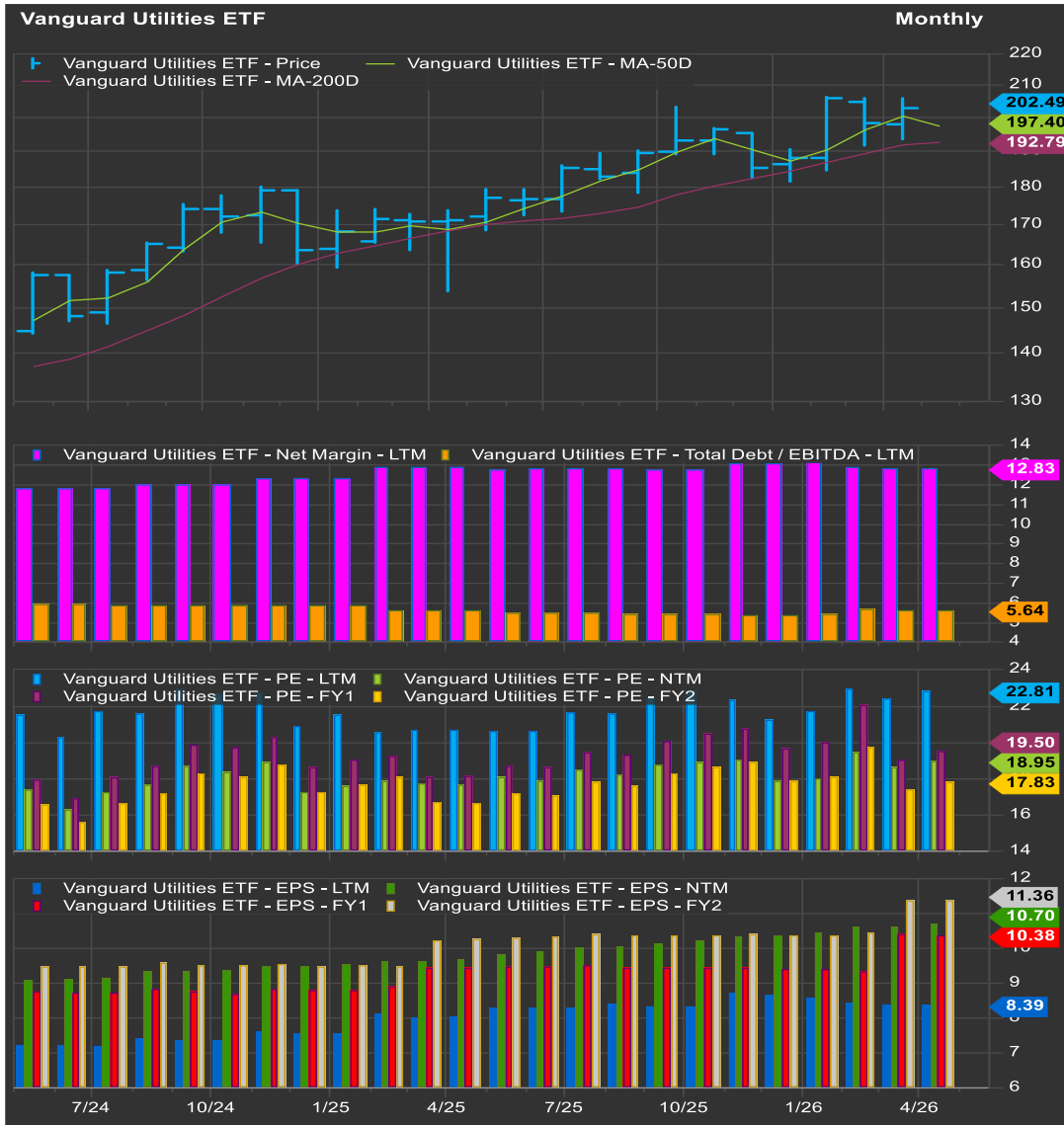
The upside case is that FERC's June action clarifies large-load interconnection rules, data-center demand remains strong, power-price and capacity-market tightness support earnings, and Treasury yields stabilize. In that scenario, utilities with data-center exposure, nuclear assets, transmission growth and constructive regulators can outperform. VPU's low RSI also leaves room for a tactical rebound if investors rotate into less extended sectors.

The downside case is that rates rise, regulators become more aggressive on customer affordability, data-center cost-allocation disputes intensify, or utilities need more equity issuance to fund capex. In that scenario, the sector's revenue growth may not translate into stock performance. The biggest risk is that investors discover that data-center load growth is not automatically accretive if infrastructure costs, timing, cost recovery and political resistance are not managed well.

Bottom line: Utilities are strategically more attractive than they have been in years, but tactically still complicated. The sector has a real growth story tied to AI, data centers, electrification and grid investment, yet it remains constrained by rates, customer bills and regulation. For June, VPU is an underweight, but if inflation pressure eases that could change sooner than later.

We start June out of the Utilities Sector with an allocation of -2.12% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Utilities Sector



Fundamentally, Utilities are better than their historical “bond proxy” label suggests, but the sector’s return profile remains highly dependent on rates and regulation. Vanguard’s VPU profile shows **67 holdings**, a **22.3x P/E**, **2.4x P/B**, **10.7% return on equity** and a **9.8% earnings-growth rate**. Those are reasonable quality metrics, but not cheap enough to ignore rate sensitivity. The sector is not priced like deep value; it is priced like a regulated-growth asset class with a stronger load-growth narrative than in prior cycles.

VPU is concentrated but not excessively so. The top ten holdings are **52.3%** of assets, led by NextEra, Southern, Duke, Constellation, American Electric Power, Sempra, Dominion, Vistra, Entergy and Xcel. The sector mix is dominated by **Electric Utilities at 62.1%** and **Multi-Utilities at 24.4%**, with smaller allocations to Gas Utilities, Independent Power Producers & Energy Traders, Water Utilities and Renewable Electricity. This means VPU is primarily a regulated electric-utility ETF, with some exposure to merchant power and nuclear scarcity through names such as Constellation and Vistra.

The earnings story is more revenue-led than margin-led. FactSet reported that Utilities had the **third-highest year-over-year revenue growth** among S&P 500 sectors in Q1 at **14.3%**, up from 9.4% at the end of March. All five Utilities industries reported year-over-year revenue growth: Independent Power & Renewable Electricity Producers at **29%**, Electric Utilities at **15%**, Multi-Utilities at **11%**, Water Utilities at **6%** and Gas Utilities at **1%**. That is a strong top-line setup, but it does not automatically translate into superior equity performance because interest expense, depreciation, fuel-cost recovery, regulatory lag and equity issuance can absorb a portion of the revenue growth.

The best fundamental opportunities are in utilities that can convert load growth into approved capital investment and earnings without triggering affordability backlash. This favors utilities in constructive regulatory jurisdictions, companies with large transmission and distribution opportunities, integrated utilities with clear generation plans, and merchant/nuclear operators that can capture tight power-market pricing. It disfavors utilities with weak regulators, high leverage, poor storm-cost recovery or aggressive capex plans that require frequent equity issuance.

Ticker	Price	1D	1W	1M	3M	6M	RSI	1M Flow	YTD Flow	1Y Flow
VPU	\$196.47	+0.79%	+3.23%	+1.10%	-1.27%	+4.33%	41.1	\$46.7M	\$393.7M	\$1.01B

5/28/2026

Industry Performance and Breadth: Utilities



Industry	Approx. Fund Weight	Fundamental Read	Macro / Policy Sensitivity
Electric Utilities	62.1%	Load growth, grid investment and data centers improve long-term EPS visibility.	Rate cases, allowed ROE, fuel recovery, data-center load, affordability.
Multi-Utilities	24.4%	Diversified regulated cash flows; jurisdiction quality matters.	State commissions, gas/electric transition, capex, rates.
Gas Utilities	4.9%	Defensive cash flows, but transition policy matters.	Gas prices, decarbonization, safety rules, rate cases.
Independent Power Producers & Energy Traders	4.7%	Merchant power upside from tight grids and data-center demand.	Power prices, capacity markets, fuel spreads, nuclear/renewables.
Water Utilities	3.1%	Defensive but valuation-sensitive.	State regulation, capex, drought, water-quality rules.
Renewable Electricity	0.8%	Policy optionality; financing costs remain a headwind.	Tax credits, interconnection, project finance, tariffs.

Stock Level Performers: Utilities

Symbol	Name	GICS Sector 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
D	Dominion Energy Inc	Utilities	Consolidation	59,099.4	0.87	-1.1	2.84	0.71	2.6
EIX	Edison International	Utilities	Bullish Reversal	27,574.3	0.54	-3.7	3.59	0.17	-0.4
EVRG	Evergy, Inc.	Utilities	Consolidation	19,402.3	0.91	-4.0	2.40	0.44	-0.9
LNT	Alliant Energy Corporation	Utilities	Consolidation	19,047.9	0.99	-4.7	2.14	0.33	-2.4
AES	AES Corporation	Utilities	Consolidation	10,469.2	0.29	-13.1	3.49	0.90	-2.4
ES	Eversource Energy	Utilities	Consolidation	26,182.7	0.69	-9.5	3.27	0.82	-2.5
XEL	Xcel Energy Inc.	Utilities	Consolidation	50,565.8	0.90	-8.7	2.18	0.23	-2.9
PNW	Pinnacle West Capital Corp	Utilities	Bullish Reversal	12,458.0	0.96	-3.3	2.63	0.24	-3.7
CNP	CenterPoint Energy, Inc.	Utilities	Consolidation	28,175.1	1.03	-6.7	1.58	0.18	-4.0
PCG	PG&E Corporation	Utilities	Consolidation	36,402.8	0.46	-13.9	0.86	-0.03	-4.1
SO	Southern Company	Utilities	Consolidation	105,673.2	0.94	-8.6	2.36	0.16	-4.2
ED	Consolidated Edison, Inc.	Utilities	Consolidation	39,804.9	0.82	-8.2	2.41	-0.21	-4.9
PEG	Public Service Enterprise Group Inc	Utilities	Consolidation	39,776.0	0.84	-12.4	2.42	0.46	-5.4
DUK	Duke Energy Corporation	Utilities	Consolidation	97,722.4	0.86	-9.7	2.55	0.09	-5.4
AEE	Ameren Corporation	Utilities	Consolidation	30,752.6	0.95	-8.1	1.99	0.33	-5.6
DTE	DTE Energy Company	Utilities	Consolidation	30,220.3	0.86	-7.8	2.36	0.38	-5.8
EXC	Exelon Corporation	Utilities	Consolidation	47,262.0	0.75	-11.7	2.65	-0.15	-5.8
WEC	WEC Energy Group Inc	Utilities	Consolidation	36,852.6	0.93	-9.5	2.45	0.21	-5.8
NI	NiSource Inc	Utilities	Consolidation	22,759.0	1.06	-6.3	1.88	0.39	-5.9
ETR	Entergy Corporation	Utilities	Bullish Reversal	51,059.0	1.14	-3.1	1.69	0.18	-6.1
SRE	Sempra	Utilities	Consolidation	59,655.8	0.82	-11.4	1.92	0.41	-6.2
CMS	CMS Energy Corporation	Utilities	Consolidation	22,928.0	0.88	-11.1	2.25	0.12	-6.6
AEP	American Electric Power Company, Inc.	Utilities	Bullish Reversal	70,499.7	0.94	-9.3	2.18	0.38	-8.3
VST	Vistra Corp.	Utilities	Consolidation	53,999.8	0.77	-15.4	0.44	1.80	-8.8
FE	FirstEnergy Corp.	Utilities	Consolidation	27,059.0	0.79	-13.5	2.89	0.11	-9.3
ATO	Atmos Energy Corporation	Utilities	Consolidation	29,418.0	0.95	-12.1	1.66	0.31	-9.5
AWK	American Water Works Company, Inc.	Utilities	Downtrend	24,171.8	0.93	-15.0	2.06	0.13	-10.5
PPL	PPL Corporation	Utilities	Consolidation	26,964.2	0.84	-14.6	2.33	0.29	-12.4
NEE	NextEra Energy, Inc.	Utilities	Consolidation	182,780.2	0.99	-13.4	2.05	0.58	-12.5
CEG	Constellation Energy Corporation	Utilities	Retracement	104,268.3	1.10	-21.0	0.43	1.71	-13.2
NRG	NRG Energy, Inc.	Utilities	Retracement	29,116.1	0.63	-27.4	1.02	1.38	-18.5

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.

Persistent upwards pressure on interest rates has kept the sector on the sidelines in April and 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 unusually exposed to the intersection of macro and policy. On the macro side, the sector benefits from rising electricity demand and nominal rate-base growth, but suffers when Treasury yields rise. On the policy side, the sector benefits from grid investment, electrification, nuclear support and data-center demand, but faces regulatory constraints around rate cases, cost allocation and customer affordability.

Rates remain the most immediate macro driver. Utilities are capital-intensive businesses, and higher interest rates raise financing costs, reduce the relative appeal of dividends and pressure valuation multiples. The sector can still perform in a higher-rate environment if earnings growth accelerates, but investors will demand evidence that load growth is converting into allowed returns. This is why the data-center thesis is powerful but not sufficient: the load growth must be profitable after cost recovery, capex, interest expense and political constraints.

Inflation is also two-sided. On the positive side, Utilities can grow nominal rate base and often recover prudently incurred fuel and infrastructure costs over time. On the negative side, inflation raises the cost of transformers, wire, poles, labor, insurance, storm restoration, gas generation, construction and financing. If customer bills rise too fast, regulators may delay recovery, reduce allowed returns, or spread costs over longer periods. The April CPI data showing electricity inflation above headline inflation underscores this risk.

The data-center policy debate is the most important June-specific catalyst. FERC's expected June action on large-load interconnection could shape how quickly utilities can connect AI data centers, how costs are allocated, and how co-located generation is treated. Rules that accelerate interconnection while clearly assigning network costs to large-load customers would be bullish for the sector. Rules that preserve ambiguity, slow project timelines or trigger state/federal jurisdictional conflict would be less constructive.

Other Important Narratives:

The first major May narrative was the confirmation that U.S. power demand is entering a new growth phase. EIA's May Short-Term Energy Outlook projected U.S. electricity demand rising **1.3% in 2026** to almost **4,250 billion kWh**, followed by another **3.1% increase in 2027**. Reuters highlighted the same EIA forecast, noting that U.S. power use is expected to hit new records in both 2026 and 2027, with commercial demand expected to surpass residential demand in 2027 for the first time on record. That is a major structural change for Utilities, because load growth creates a larger rate-base opportunity, more transmission investment, more generation need and higher value for dispatchable power.

The second narrative was data centers. DOE's data-center energy report estimated that U.S. data-center load growth had tripled over the prior decade and could double or triple again by 2028; it also estimated that data centers consumed about **4.4% of total U.S. electricity in 2023** and could consume roughly **6.7% to 12% by 2028**. This is the core reason Utilities are no longer just a defensive-yield sector. Utilities with power, land, transmission access and constructive regulators are increasingly tied to the AI infrastructure cycle.

The third narrative was reliability. NERC's 2026 Summer Reliability Assessment noted that strong load growth from data centers and other large loads continues to push North American electricity demand forecasts higher. FERC's summer reliability assessment similarly identified three challenges for summer 2026: rapid load growth from data centers, electrification and

industrial expansion; the need to support increased power transfers; and potential retirements of coal and natural gas generation. These are supportive for investment in generation, storage, transmission and grid hardening, but they also raise the probability of regulatory scrutiny if power costs rise or reliability is questioned.

The fourth narrative was that company-level earnings and demand commentary increasingly validated the power-growth thesis. NextEra reported Q1 adjusted EPS growth of **10%** year over year and said it expects adjusted EPS to compound at **8%+** through 2032, while its Energy Resources hub pipeline rose from roughly **50 GW** in December 2025 to **more than 60 GW** by April 2026. Duke Energy reaffirmed its **5% to 7%** long-term EPS growth outlook through 2030 and disclosed another **7.8 GW** of high-confidence, late-stage data-center projects. Southern Company reported Q1 operating revenue up **8.0%**, with higher utility revenues partially offset by milder weather and higher interest expense.

The fifth narrative was nuclear and merchant power. Constellation reported Q1 adjusted operating EPS of **\$2.74**, up from **\$2.14** a year earlier, and highlighted strong visible cash flow supporting its capital allocation framework. Its nuclear fleet operated at a **92.3% capacity factor** in Q1, excluding Salem and South Texas Project. Nuclear scarcity value is increasingly important because AI and data-center customers want high-capacity-factor, carbon-free power, while reliability concerns are increasing the value of dispatchable generation.

The sixth narrative was affordability. Electricity inflation is now politically relevant. April CPI showed the electricity index rising **2.1% month over month** and **6.1% year over year**, while EIA expects residential electricity prices to rise about **5% in 2026**. This is the biggest constraint on the Utilities thesis. Utilities can grow rate base through data-center load, transmission and generation investment, but regulators must approve customer bill increases. If residential and small-business customers perceive that they are subsidizing hyperscaler power needs, the political pushback can become material.

The seventh narrative was data-center cost allocation. FERC plans to act in June on DOE's proposed reforms for interconnecting data centers and other large loads to the transmission system. Separately, FERC previously directed PJM to develop transparent rules for AI-driven data centers and other large loads co-located with generation, with the explicit goal of protecting consumers and grid reliability. The policy issue is not whether utilities should serve new load; it is who pays for the transmission, generation and reliability costs created by that load.

That cost-allocation debate became more visible in PJM. Utility Dive reported that data-center load accounted for **\$6.5 billion**, or **40%**, of costs in PJM's December capacity auction, according to the market monitor; the market monitor also said data-center forecasts above existing loads represented **45%** of costs across PJM's last three capacity auctions. In May, the Maryland Office of People's Counsel filed a FERC complaint arguing that PJM's transmission cost-allocation rules unfairly assign data-center-driven transmission costs to customers that are not causing the load growth. This is an important June risk because utilities benefit from infrastructure investment, but the politics of cost recovery can become contentious quickly.

Appendix: Sources (all chart sourced from FactSet Research Systems Inc.)

- EIA Short-Term Energy Outlook, May 2026 — electricity-demand growth, commercial load growth, residential electricity prices and energy forecasts.
- DOE data-center electricity-demand report — data-center load growth and projected electricity consumption.
- NERC 2026 Summer Reliability Assessment — grid reliability, load growth, regional resource adequacy and large-load risk.
- FERC 2026 Summer Energy Market and Electric Reliability Assessment — summer reliability, demand, fuel and grid-risk framework.
- Utility Dive: FERC June decision on data-center interconnection reform — June regulatory catalyst for large-load interconnection.
- FERC fact sheet on PJM large-load / data-center rules — cost allocation, consumer protection and grid innovation policy.
- BLS CPI — electricity inflation and customer-affordability pressure.

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.