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Monthly Insights: July Outlook

Utilities Sector

Patrick Torbert, CMT

Editor & Chief Strategist

Sector Price Action & Performance Review: Utilities

Utilities enter July with one of the better sector-level model signals, but the recommended positioning is more balanced than the model rank alone would imply. VPU rose **2.0%** over the past month while the S&P 500 proxy fell **2.9%**, and the sector's **63.2 RSI** shows improving momentum without being fully overbought. The quant signal is constructive because Utilities have a favorable **Oversold / Reversal** profile, but the tactical overlay argues against adding aggressively after defensive and low-volatility exposures already worked in June.

The strongest industry-level performance came from **Water Utilities**, **Multi-Utilities** and regulated **Electric Utilities**. American Water Works, Ameren, DTE, AEP, CMS, Edison International, Pinnacle West and Alliant were among the sector's top performers. The June leadership was therefore more about regulated defensive recovery, dividend support and lower-beta rotation than a pure AI-power scarcity trade.

That distinction matters. Earlier in the year, Utilities leadership was often tied to the data-center electricity demand theme and crowded interest in nuclear, merchant power and independent power producers. In June, the stronger performance came from traditional regulated utilities with constructive reversal patterns. By contrast, Constellation Energy was the only Utilities stock in the file with negative 1-month excess return, and Vistra lagged the regulated utility rebound despite staying positive. That suggests investors became more selective about the most crowded AI-power beneficiaries.

July Outlook

The July outlook for Utilities is **constructive but market weight**. The model ranks Utilities **2nd**, and the sector has clear defensive value if Technology and Communication Services remain volatile. However, we do not want to overweight the sector after a strong month for low-volatility exposures, especially when lower oil, lower commodity pressure and stable credit conditions could support more cyclical inflows.

The best July exposure is in **regulated Electric Utilities and Multi-Utilities**. AEP, Ameren, DTE, CMS, Edison, Pinnacle West, Alliant and PCG show the best combination of improving relative performance, dividend support and low beta. These stocks are appropriate for maintaining exposure, but not necessarily for aggressively adding after the June move.

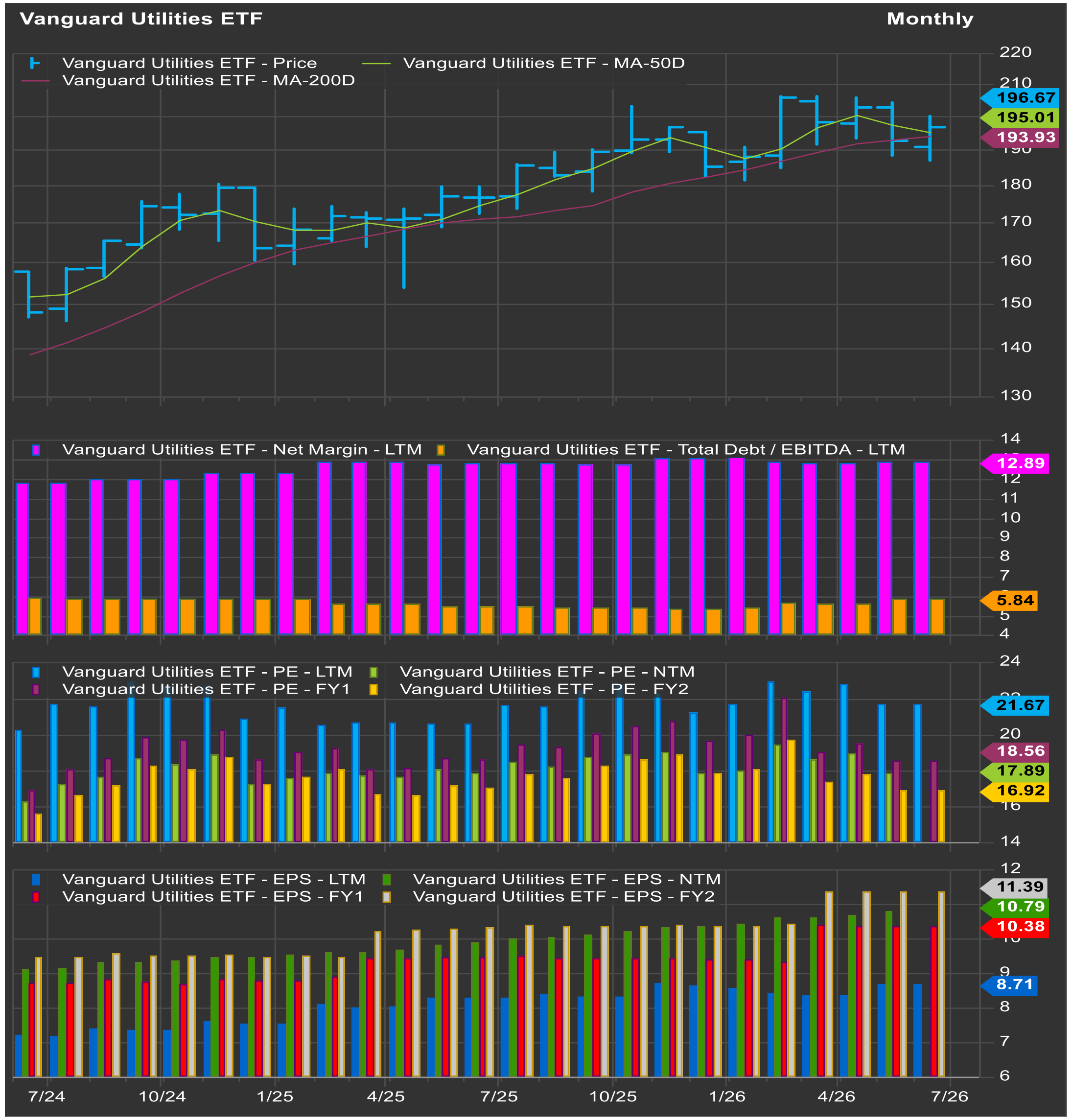
Upside case: long yields stay contained, heat-driven power demand remains strong, FERC and state regulators provide constructive large-load cost-recovery frameworks, and investors continue to favor defensive sectors. In that scenario, Utilities can keep outperforming.

Downside case: rates move higher, cyclicals receive stronger inflows, regulated utility gains get harvested, or policymakers push back on data-center cost allocation. In that scenario, Utilities may hold up but lag sectors with better cyclical upside.

Bottom line: Utilities remain a good sector, but not an aggressive July overweight. The model score is high, but the tactical setup argues for market-weight exposure after a strong month for defensive and low-volatility names. Keep regulated utility exposure for ballast and AI-load-growth optionality, but reserve incremental risk budget for sectors with better cyclical inflow potential.

We start July near market-weight Utilities Sector with an allocation of -0.49% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Utilities Sector



The fundamental backdrop is improving, but not strong enough to override the tactical flow argument. FactSet's June 26 Earnings Insight shows Utilities expected to deliver **14.2%** year-over-year Q2 earnings growth, only slightly below the **15.1%** estimate from March 31. Revenue growth is expected at **8.3%**, down modestly from the **8.7%** estimate at quarter start, but still healthy for a defensive sector.

Valuation is reasonable rather than cheap. Utilities trade close to their own historical average forward multiple, and the sector's dividend support remains attractive relative to many growth sectors. However, capital intensity is rising because utilities need to fund generation, transmission and distribution upgrades tied to data centers, electrification and grid reliability. The investment case therefore depends on regulators allowing adequate cost recovery without creating a customer-bill backlash.

The long-term demand story is better than a traditional defensive utility cycle. AI data centers, industrial electrification, reshoring and grid modernization are raising the sector's growth profile. That makes Utilities more interesting than a simple bond-proxy defensive. But stronger growth also means more capex, more rate-case exposure and more political scrutiny over who pays for infrastructure.

Guidance is the caution. The sector's earnings-growth outlook is positive, but the broader guidance profile is not especially strong. That supports a **market-weight** stance: Utilities deserve a place in the portfolio, but the sector does not deserve an aggressive overweight after low-volatility exposures have already had a strong month.

Ticker	Exposure	Price	1D	1W	1M	3M	6M	RSI
VOO	S&P 500	$670.26	-0.7%	-2.4%	-2.9%	+13.0%	+6.0%	43.2
VPU	Utilities	$199.66	+0.8%	+2.9%	+2.0%	+1.9%	+8.0%	63.2

Industry Performance and Breadth: Utilities

Indicator	Latest Reading	June Message	Investment Interpretation
Utilities model score	**1.09**	Strong positive	Utilities rank 2nd of 11 sectors.
Utilities model rank	**2 / 11**	Constructive	Quant model favors Utilities as a defensive/reversal setup.
Model profile	**Oversold / Reversal**	Rebound signal	Signal is mean-reversion oriented, not a clean trend-leadership call.
VPU 1M return	**+2.0%**	Outperformed	Utilities beat the S&P 500 proxy by roughly 490 bp.
VPU 3M return	**+1.9%**	Modest	Sector has recovered but has not shown strong intermediate leadership.
VPU 6M return	**+8.0%**	Solid defensive performance	Six-month profile confirms Utilities as portfolio ballast.
VPU RSI	**63.2**	Healthy	Positive, but no longer an overlooked defensive setup.
10Y Treasury yield	**4.37%**	Rate pressure eased	Supports yield-sensitive Utilities, but not enough for aggressive overweight.
10Y real yield	**2.18%**	Still restrictive	Limits valuation re-rating for capital-intensive dividend proxies.
10Y breakeven inflation	**2.20%**	Inflation expectations cooled	Helps Utilities, but also supports cyclical rotation if growth holds.
WTI crude	**$69.23/bbl**	Energy shock reversed	Lower oil reduces inflation pressure and may redirect flows toward cyclicals.
Bloomberg Commodity Index	**122.99**	Commodity impulse cooled	Less commodity pressure supports risk appetite beyond defensive sectors.

Top 10 Stock Level Performers: Utilities

Symbol	Company	Sector	Industry	Pattern	1M Excess	Valuation Rel.	Momentum Score	Div Yield Rel.	Beta
AEE	Ameren	Utilities	Multi-Utilities	Consolidation	+12.0%	1.05	3.2	1.87	0.25
NRG	NRG Energy	Utilities	Electric Utilities	Consolidation	+11.3%	0.72	-6.5	0.93	1.21
DTE	DTE Energy	Utilities	Multi-Utilities	Consolidation	+11.2%	0.96	2.3	2.18	0.31
AEP	American Electric Power	Utilities	Electric Utilities	Bullish Reversal	+11.2%	1.05	2.2	2.00	0.28
AWK	American Water Works	Utilities	Water Utilities	Consolidation	+11.1%	1.05	-6.5	1.90	0.10
CMS	CMS Energy	Utilities	Multi-Utilities	Consolidation	+10.4%	0.97	-1.2	2.10	0.05
EIX	Edison International	Utilities	Electric Utilities	Bullish Reversal	+10.3%	0.60	4.4	3.31	0.15
PNW	Pinnacle West Capital	Utilities	Electric Utilities	Bullish Reversal	+9.8%	1.05	3.3	2.45	0.20
LNT	Alliant Energy	Utilities	Electric Utilities	Bullish Reversal	+9.7%	1.08	2.9	1.99	0.28
PCG	PG&E	Utilities	Electric Utilities	Consolidation	+9.4%	0.50	-3.5	0.81	-0.05

The top table is mostly regulated utility recovery. Ameren, DTE, AEP, CMS, Edison, Pinnacle West and Alliant all combine low beta, dividend support and improving chart patterns. This is why Utilities worked in June: investors wanted lower-volatility exposure that could still participate in the AI power demand narrative.

The issue is that this is now a more obvious trade. Many of the top names are still in **Consolidation**, not clean uptrends, and several have only modest momentum scores. That is consistent with a defensive rebound rather than durable leadership acceleration.

Edison International stands out as a higher-yield reversal name, with a low valuation multiple and dividend-yield multiple above **3x** the index. AEP and Ameren are cleaner regulated growth/recovery stories. NRG is the higher-beta exception, but its negative momentum score argues against treating it as a fully confirmed leadership stock.

Bottom 10 Stock Level Performers: Utilities

Symbol	Company	Industry	Pattern	1M Excess	Valuation Rel.	Momentum Score	Div Yield Rel.	Beta
CEG	Constellation Energy	Electric Utilities	Retracement	-5.1%	1.04	-22.2	0.46	1.60
AES	AES	Independent Power & Renewable Electricity Producers	Consolidation	+2.5%	0.30	-4.1	3.45	0.85
ATO	Atmos Energy	Gas Utilities	Consolidation	+3.9%	0.99	-8.9	1.63	0.22
VST	Vistra	Independent Power & Renewable Electricity Producers	Consolidation	+4.8%	0.79	-4.9	0.43	1.72
NEE	NextEra Energy	Electric Utilities	Bullish Reversal	+4.9%	1.04	-6.6	2.00	0.47
DUK	Duke Energy	Electric Utilities	Consolidation	+6.4%	0.92	-5.2	2.43	0.02
D	Dominion Energy	Multi-Utilities	Bullish Reversal	+6.7%	0.93	4.2	2.75	0.68
XEL	Xcel Energy	Electric Utilities	Consolidation	+7.2%	0.95	-1.5	2.09	0.17
FE	FirstEnergy	Electric Utilities	Consolidation	+7.6%	0.85	-6.0	2.75	0.07
NI	NiSource	Multi-Utilities	Bullish Reversal	+7.6%	1.14	0.6	1.80	0.33

The bottom table is not broadly bearish. Nine of the ten stocks had positive 1-month excess returns. That confirms the Utilities rebound was wide enough to matter. The warning is more subtle: the most crowded AI-power names and merchant-generation exposures lagged the regulated utility recovery.

Constellation Energy is the key tell. It remains central to the long-term nuclear/data-center power story, but its **Retracement** pattern and **-22.2** momentum score show that scarcity winners can correct when expectations get crowded. Vistra and AES also lagged the regulated utility group despite positive returns. That reinforces our market-weight stance: Utilities still have good attributes, but the highest-beta power-demand names no longer offer clean near-term leadership.

NextEra and Dominion also highlight the policy complexity. They offer long-term renewable, grid and data-center exposure, but large utility combinations and regional power concentration are increasingly likely to draw regulatory scrutiny. That policy risk matters more as utilities become part of the AI infrastructure story.

Economic & Policy Drivers: Utilities Sector

Electric Utilities

Electric Utilities are still the core opportunity inside Utilities. The industry has strong dividend support, regulated earnings visibility and direct exposure to electricity load growth. AEP, Edison, Pinnacle West, Alliant, PCG and NRG all posted strong relative performance.

The long-term demand story is data centers and electrification. U.S. power demand is expected to set records as AI, crypto, industrial reshoring and electrification increase load. That supports transmission, generation and distribution investment. The caution is that the same demand growth can create customer-bill pressure, rate-case scrutiny and political questions about whether data-center users are paying their fair share.

July read: positive but not chaseable. Favor regulated names with clear cost recovery and improving charts; avoid paying full price for crowded power-scarcity narratives.

Multi-Utilities

Multi-Utilities had the best broad regulated profile, with a **+9.2%** average 1-month excess return and low average beta. Ameren, DTE, CMS, Dominion, WEC, PSEG, CenterPoint, Sempra, NiSource and Consolidated Edison participated.

This is the cleanest implementation for a market-weight Utilities position. The group offers yield, low beta and regulated earnings while still participating in grid and load-growth capex.

July read: best core exposure inside Utilities. Use Multi-Utilities as portfolio ballast rather than an aggressive alpha sleeve.

Independent Power & Renewable Electricity Producers

Independent Power remains strategically attractive but tactically mixed. Vistra and AES have exposure to merchant power, renewables, capacity pricing and AI/data-center load growth. However, both lagged the regulated utility rebound, and both still have negative momentum scores.

This matters because the AI-power trade has become more crowded. Investors may still reward long-term scarcity, but they are less willing to chase after a strong run unless earnings, power prices or contract announcements provide new confirmation.

July read: selective hold, not fresh chase. Wait for improved momentum or better entry points.

Gas Utilities

Gas Utilities remain a stable but lower-priority sleeve. Atmos Energy had a positive 1-month excess return but negative momentum. The industry has defensive characteristics, but less direct AI/load-growth torque than electric utilities.

July read: neutral. Useful for stability, but not a preferred source of July upside.

Water Utilities

Water Utilities are represented by American Water Works, which was one of the top sector performers. The appeal is low beta, regulated quality and scarcity value.

July read: defensive hold. Attractive for stability, but narrower upside than electric and multi-utilities.

Grid Policy and Large-Load Cost Recovery

Grid policy is the most important Utilities policy issue. Data centers and large industrial loads are forcing regulators to decide how interconnection costs, transmission upgrades and reliability investments should be allocated. That issue can either support utility earnings through higher rate base or create political pushback if customer bills rise too quickly.

July read: favor utilities with constructive regulatory frameworks. The best Utilities investments will be those that can convert data-center load growth into approved capex and earnings growth without triggering affordability backlash.

What Shaped the Utilities Narrative in June

June's Utilities narrative was **defensive rotation plus AI power demand, but with a leadership shift**. The sector benefited as investors moved into lower-volatility exposures during a choppier month for mega-cap growth. That defensive bid helped regulated utilities, multi-utilities and water exposure.

At the same time, the AI power theme remained intact but became less dominant as a stock-selection factor. Constellation, Vistra and AES did not lead the sector. Instead, the top table was filled with regulated utilities that offer dividend support, lower beta and constructive reversal patterns.

That is why we are keeping exposure closer to market weight despite the strong model score. Utilities already had a good month, and the next incremental dollar of sector flow may favor cyclicals if lower commodity prices and stable credit keep supporting the broadening trade.

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

ETFInsight V8 Sector Model Workbook, June 26, 2026 — Vanguard sector ETF returns, RSI readings, sector selection scores, macro indicator readings, rates, credit, commodities, volatility and breadth data.

FactSet Earnings Insight, June 26, 2026 — S&P 500 and Utilities Q2 earnings-growth estimates, revenue-growth estimates, EPS guidance profile, forward P/E, target-price upside and analyst-rating context.

FactSet S&P 500 Energy and Utilities Sector Earnings Preview, April 14, 2026 — Utilities industry earnings-growth expectations, data-center load commentary, offshore wind policy uncertainty and forward Utilities earnings-growth framework.

Federal Reserve FOMC Statement, June 17, 2026 — policy-rate backdrop, inflation language, energy supply-shock discussion and rate-sensitive defensive sector context.

Reuters: U.S. power use to beat record highs in 2026 and 2027 as AI use surges, June 9, 2026 — EIA electricity-demand forecasts, AI/data-center load growth, electrification and power-demand outlook.

Reuters: Scorching heat forecast threatens demand records on U.S. electric grid, June 30, 2026 — PJM demand record risk, real-time power-price spike, grid reserve margin and heat-wave demand pressure.

FERC Large Load Integration Action, June 2026 — regional grid-operator tariff review, large-load interconnection rules, data-center cost allocation and grid-planning policy framework.

Reuters: Top U.S. energy regulator pushes grids to overhaul data-center power rules, June 18, 2026 — FERC large-load rulemaking, data-center interconnection, grid-cost allocation and tariff reform.

Reuters: U.S. utilities spend big on rising data-center demand, February 12, 2026 — electric utility capex plans, AEP/Exelon investment, data-center demand and customer-bill concerns.

Reuters: U.S. announces $17.5B in conditional loans for nuclear power supply chain, June 23, 2026 — nuclear-policy support, AP1000 supply chain, baseload power and AI/data-center reliability demand.

Reuters: Vistra beats quarterly core profit estimates on AI-driven power demand, February 26, 2026 — merchant-power earnings, AI load growth, timing of supply-demand tightening and Vistra demand commentary.

Reuters: Senator asks regulator to reject NextEra-Dominion power deal, June 29, 2026 — utility consolidation, FERC scrutiny, data-center regional exposure, market-power concerns and customer-price risk.

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.