

Utilities Off To A Good Start In 2015 But Could Encounter Headwinds

S&P 500 Utilities Index

	Total Return	Yield	EPS Growth Rate	P/E Ratio
2005	16.84%	3.44%	16.12%	15.70
2006	20.99%	3.09%	2.90%	17.83
2007	19.38%	2.85%	16.93%	17.66
2008	-28.98%	4.44%	-0.33%	12.13
2009	11.91%	4.23%	0.73%	12.86
2010	5.46%	4.35%	6.04%	12.23
2011	19.91%	3.91%	1.75%	13.81
2012	1.29%	4.21%	-6.75%	14.38
2013	13.21%	4.02%	-4.22%	16.32
2014	28.98%	3.32%	11.71%	18.16

Source: Bloomberg. Yield & P/E as of 12/31. Past performance is no guarantee of future results.

View from the Observation Deck

1. The top performing S&P 500 sector in 2014 was Utilities, up 28.98%, on a total return basis. It has also been the top performer in January 2015, up 3.32%, through the 28th.
2. Investors funneled a net \$6.15 billion into Utilities mutual funds and ETFs in 2014, according to Morningstar.
3. The decline in interest rates in the bond market in 2014 made the 3%-plus dividend yield from utilities stocks quite a bit more attractive, in our opinion.
4. Our concern for at least the second half of 2015 is the potential for higher interest rates, similar to what transpired in 2013. The Federal Reserve has stated that it may begin to tighten in 2015.
5. One of the key statistics in the chart is the 18.16 price-to-earnings ratio for the index at the close of 2014. That is well above its 10-year average of 14.97 from 2005-2014, according to data from Bloomberg.
6. Should interest rates rise at some point in 2015 in response to an acceleration in U.S. economic growth, we believe there could be the potential for some significant profit taking in the utilities sector.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Utilities Index is a capitalization-weighted index comprised of S&P 500 constituents representing a specific sector.