

It's Not A Surprise That Utilities Are Down In 2015

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
YTD 2015*	-6.91%	3.77%	1.54% (Est.)	16.14

Source: Bloomberg. Past performance is no guarantee of future results. *YTD as of 7/8/15.

View from the Observation Deck

1. Today's blog post is an update of one we did on 1/29/15 (chart used on 1/29/15 is updated to include 2015 data).
2. Our message in January was one of caution due to the strong back-to-back total returns posted in 2013 and 2014 (see chart).
3. We were concerned that investors could potentially engage in profit taking if interest rates were to move higher – and they did.
4. The yield on the 10-Year Treasury Note increased from a 2015-low of 1.64% on 1/30/15 (day after our blog post) to 2.19% on 7/8/15, according to Bloomberg.
5. In our opinion, while utility stocks have proven to be an effective alternative to traditional savings vehicles following the reduction in the federal funds target rate to 0-0.25% in late 2008, valuations did become elevated in 2014.
6. The index's price-to-earnings ratio (P/E) stood at 16.14 as of 7/8/15 (see chart). While down significantly from where it stood (18.16) on 12/31/14, it remains above its 10-year average of 14.95 (through 7/8/15), according to Bloomberg.

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 the utilities sector.

