

Utilities Looking A Bit Rich After Staging Strong Rally In 2016

S&P 500 Utilities Index

	Total Return	Dividend Yield (12/31)	EPS Growth Rate	P/E Ratio
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%	10.88%	18.30
2015	-4.84%	3.84%	3.33%	16.22
YTD 2016*	22.56%	3.23%	4.12% (12/31/16 Est.)	19.55

Source: Bloomberg. Past performance is no guarantee of future results.
*YTD as of 7/29/16. EPS Growth Rate estimate as of 8/1/16.

View from the Observation Deck

1. Today's blog post is an update of one we did on 7/9/15 ([click here to view](#)).
2. The yield on the 10-year Treasury note fell from 2.32% on 7/9/15 to 1.45% on 7/29/16, or a decline of 87 basis points, according to Bloomberg.
3. A yield of 1.45% for a maturity of 10 years illustrates just how tough it is for income-oriented investors to capture a level of interest income that outpaces the rate of inflation in the U.S.
4. The Consumer Price Index – Core Rate, which excludes food and energy costs, stood at 2.30% (year-over-year) in June 2016, according to the Bureau of Labor Statistics.
5. Investors funneled an estimated net \$5.01 billion into Utilities mutual funds and exchange-traded funds in the first six months of 2016, according to Morningstar. Net estimated inflows totaled \$2.94 billion for the 12-month period ended June 2016. This indicates that interest in Utilities picked up in the first half of 2016. Investors have been willing to assume more risk to get more yield, in our opinion.
6. Despite the significant rally in utility stocks through the first seven months of 2016, the dividend yield on the S&P 500 Utilities Index stood at 3.23% on 7/29/16. That is still an attractive level, in our opinion.
7. We believe those considering an investment in utility stocks in the current climate should factor in the elevated price-to-earnings ratio on the S&P 500 Utilities Index, which stood at 19.55 on a 12-month trailing basis, relative to its estimated earnings growth rate forecast for 2016, as well as the potential for additional rate hikes from the Federal Reserve later in 2016.

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.

