



Timely thematic topic:

Utilities Rally in Q2: The AI Revolution and a New Era for Power Stocks

Utilities climbing to the top of the performance charts is one of the most interesting things that has happened in the market during Q2.

While utilities typically offers diversification benefits such as strong cashflow generation, inflation protection, low beta, attractive yields – these are not the only reasons interest has returned to the sector.

We believe it is courtesy of the AI-related story, and at the same time, earnings results have been supportive.

What's Happened to Global Utilities QTD?

(as of May 31st, 2024)

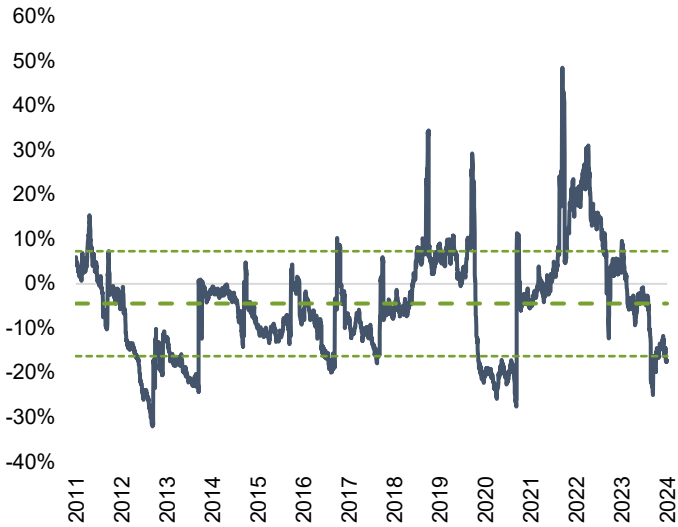
- Highest sector returns in U.S. and World – 3rd highest in EU.
- Broad-based rally: 70 of 86 MSCI World Utilities stocks up in QTD.
- Returns led by renewables & electricity stocks, particularly nuclear.
- Many companies beat earnings expectations in Q1, U.S. & Europe.
- Earnings upgrades over recent weeks.

	MSCI AC World Index	S&P 500 Index	MSCI Europe Index
Utilities	9.20	10.54	5.27
Communication Services	4.08	4.37	4.54
Information Technology	2.20	4.10	-1.68
Consumer Staples	1.59	1.54	3.26
Financials	1.42	-1.16	6.41
Energy	0.99	-1.14	5.35
Materials	0.80	-1.51	3.84
Industrials	-0.24	-1.97	4.27
Health Care	-1.40	-2.82	4.78
Consumer Discretionary	-3.41	-4.05	-3.21
Real Estate	-3.70	-3.85	5.26

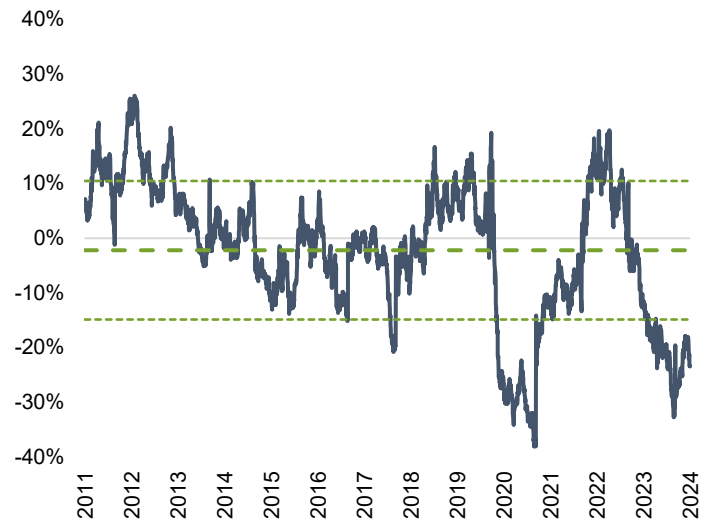
Source: Bloomberg as of 31 May 2024.

Valuations

EU Utilities relative P/E



U.S. Utilities relative P/E



Source: Bloomberg as of 17 June 2024. US Utilities = S&P 500 Index and MSCI USA Utilities. EU Utilities = STOXX Europe 600 and STOXX Europe 600 Utilities. **Past performance does not equal future results.**

Notable Inflows

ETF flows have turned around, particularly in U.S. funds, from the largest outflows earlier this year to net inflows in May.

Turnaround in flows into U.S.-domiciled Utilities Sector ETFs

	Prior Week (\$ million)	Month to Date (\$ million)	Year to Date (\$ million)
Technology	-141	-2,788	8,201
Financials	-9	472	-281
Health Care	631	279	-1,665
Consumer Discretionary	-94	-124	630
Consumer Staples	-159	747	-1,282
Energy	-83	521	1,113
Materials	45	-243	-286
Industrials	137	497	2,642
Real Estate	-99	-829	441
Utilities	201	491	-1,974
Communications	135	82	-235

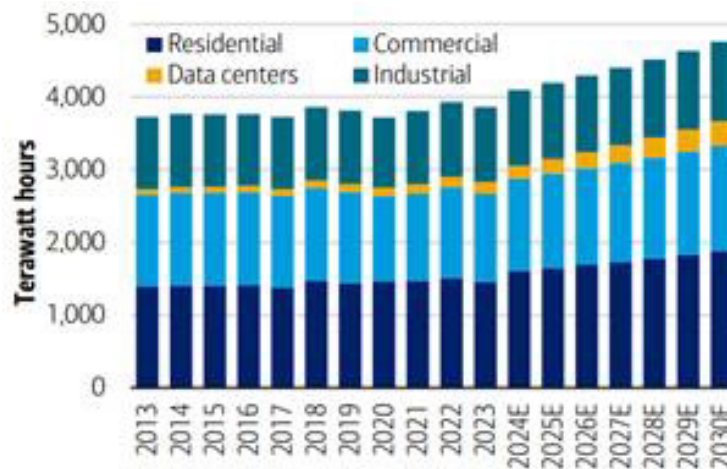
Source: Bloomberg Professional L.P. as of 17 May 2024

The AI Story: Global Electricity Demand Accelerating

The International Energy Agency 2024 Electricity report expects data center electricity usage to double by 2026.

Further out, Bloomberg Intelligence forecasts a tripling of data center demand to 2029, reaching 7.5% of U.S. electricity demand. In Europe, Goldman Sachs estimates data center electricity use expanding from 1% towards 6% of total EU electricity demand.

Growth in U.S. power demand expected to accelerate over coming years



Source: BoA Global Research RIC report May 2024.

Supply Unlikely to Keep Up

New demand has been running ahead of likely new electricity supply (with natural gas capacity struggling to keep up). The renewable energy commitment of Clean Energy Buyers Association, which members include Microsoft, Amazon, and Alphabet, and the goals of Europe's REPowerEU reinforce attention on wind, solar, and nuclear.

- Recent inflation in electricity prices may continue.
- The onset of a new power cycle for electricity.

Utilities: A Refocus on Fundamentals

The data center revolution brings significant demand for power and we believe with utilities should be well-positioned to benefit, with and an associated return of popularity for renewables. Investors can refocus on fundamentals in a more stable interest rate environment.

- Potential upgrades, excitement over electricity demand, higher power prices, low historical valuations, attractive yields, inflation protection, and predictable cash flows.

Defensive Equities with Growth

Historically, investors have been drawn to the defensive attributes of utilities. Today, while utilities still offer these benefits, they are also directly exposed to the structural growth of electrification. This presents a unique combination of defensive assets with growth potential that is 2 to 3 times that of the market.

Ecofin

We believe that electrification is entering a period of structural growth, in a sector that hasn't experienced significant growth in over 15 years. Within the generation mix, we believe renewables offer investors strong growth opportunities while reducing global carbon emissions. To learn more, contact us at www.ecofininvest.com.

Ecofin Advisors Limited ("Ecofin") is authorized and regulated by the Financial Conduct Authority and is also registered with the U.S. Securities and Exchange Commission as an investment advisor. This commentary contains certain statements that may include "forward-looking statements." All statements, other than statements of historical fact, included herein are "forward-looking statements." Although Ecofin believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect; actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward looking statements, which speak only as of the date of this publication. Ecofin does not assume a duty to update these forward-looking statements. The views and opinions in this commentary are as of the date of publication and are subject to change. This material should not be relied upon as investment or tax advice and is not intended to predict or depict performance of any investment or any fund managed by Ecofin. This publication is provided for information only and shall not constitute an offer to sell or a solicitation of an offer to buy any securities.

The MSCI World Energy Index is designed to capture the large and mid cap segments across 23 Developed Markets countries. All securities in the index are classified in the Energy sector as per the Global Industry Classification Standard (GICS®). The MSCI ACWI Index captures large and mid cap representation across 23 Developed Markets and 26 Emerging Markets countries. The index covers approximately 85% of the global investable equity opportunity set. The S&P 500® Index is an unmanaged, market-value weighted index of stocks that is widely regarded as the standard for measuring large-cap U.S. stock market performance. The MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe*. With 420 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe. The MSCI USA Utilities Index is designed to capture the large and mid cap segments of the US equity universe. All securities in the index are classified in the Utilities sector as per the Global Industry Classification Standard (GICS®). The STOXX Europe 600 Index has comprehensive coverage that offers diversified country and industry allocation to Europe's developed economies, replicating almost 90% of the underlying investable market. The STOXX Europe 600 Utilities Index is one of the 20 supersectors of the STOXX Supersector indices. The indices track supersectors according to the Industry Classification Benchmark (ICB). Companies are categorized according to their primary source of revenue.