

MONTHLY RESEARCH WEBINAR

UTILITIES: OPPORTUNITIES IN A DECLINING-RATE ENVIRONMENT

Moderator:

Jim Kelleher, CFA

Director of Research

August 7, 2024

■ **Utilities: Opportunities in a Declining-Rate Environment**

- Jim Kelleher, CFA, Director of Research
- Marie Ferguson, Senior Analyst

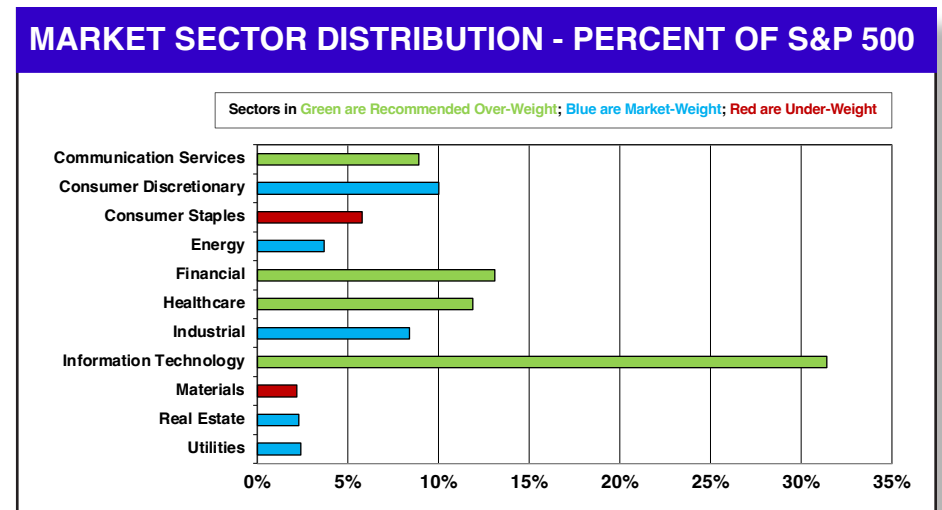
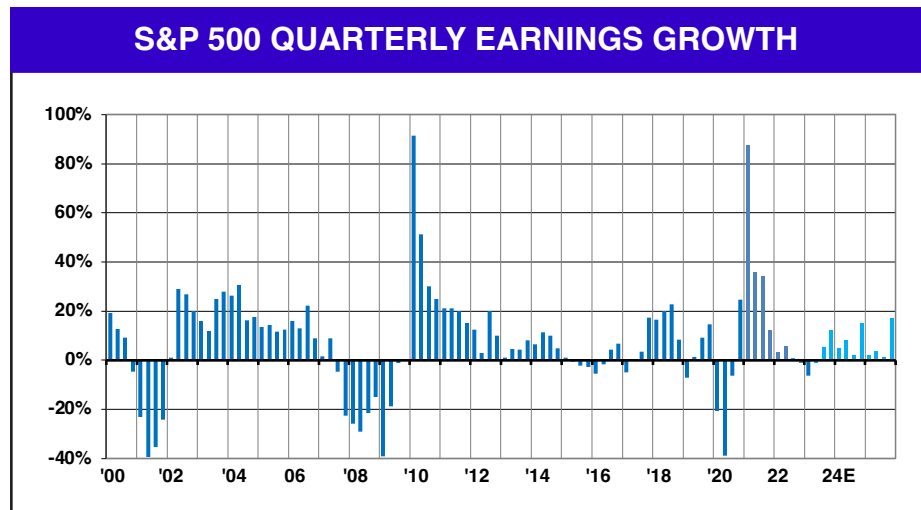
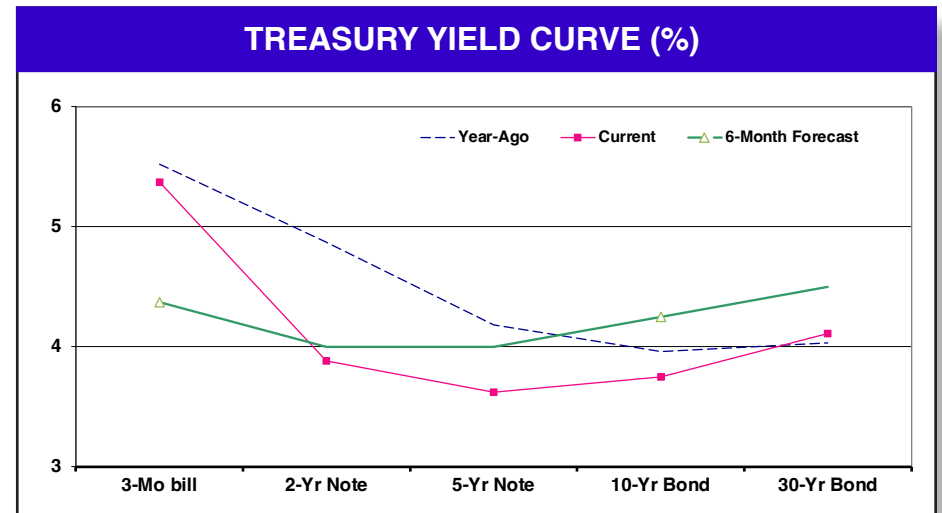
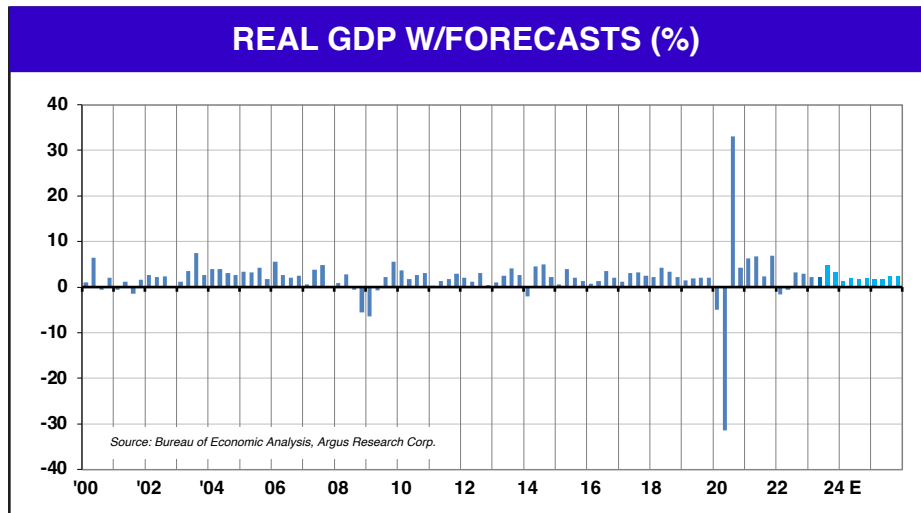
■ **Argus Quick Notes**

- Playing It Safe: Min Vol Stocks
- AI Spotlight on Healthcare
- Dividend Growers
- AI Spotlight on Financials
- Find these on the homepage of our website

■ **Portfolio Update: the Argus Min Vol Model Portfolio**

- Recession uncertainty driving rotation to low beta names
- Argus believes Min Vol is an all-weather strategy
- Potential for market-matching returns in a “normal” market
- Potential for relative outperformance in a volatile market
- Find the Argus Min Vol MP on the homepage of our website

MACRO FORECASTS

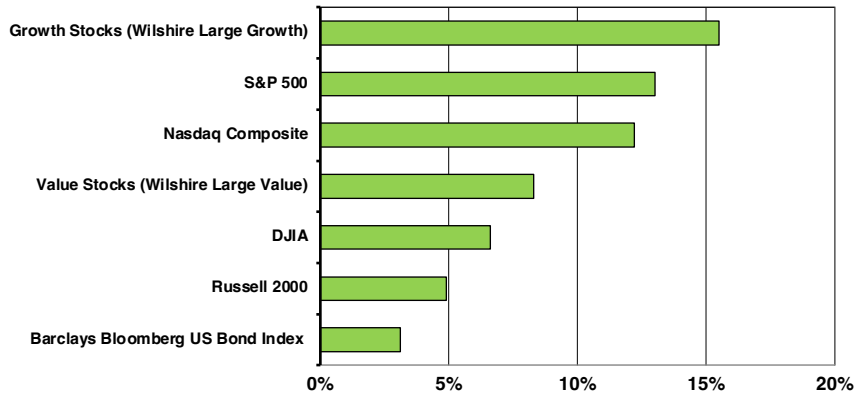


MARKET PERFORMANCE

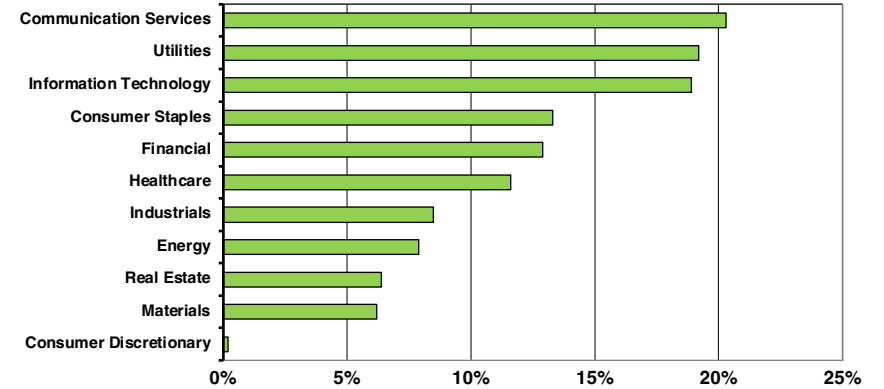
DATA AS JULY 31, 2024



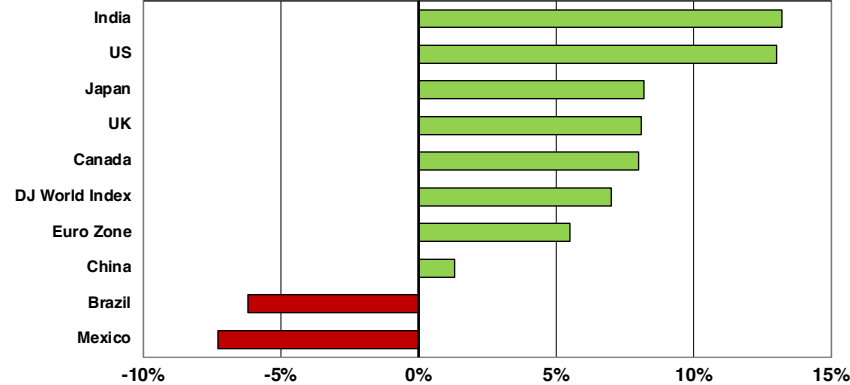
MAJOR INDEX



SECTOR



GLOBAL EQUITY MARKETS



- **The Utility Sector accounts for 2.5% of the S&P 500**
- **Our Recommendation is Market Weight**
- **Outlook**
 - **Utility Sector has gained momentum in the last 6 months. Benchmark XLU and IDU are up around 19% while the S&P 500 is up only about 5%.**
 - **Average dividend yield of 3.5% for Argus-covered utilities, vs. 1.3% for S&P 500.**
 - **We expect above-market yields and steady earnings growth to provide total annual returns in mid-to-high single-digit percentages in 2024. Average earnings growth in 2024 vs 2023 is about 3-5% for the sector overall.**
 - **We believe the sector is poised to benefit from sector rotation as investors respond to lower interest rates.**

■ SOUTHERN COMPANY (SO)

Target price: \$95

- **Southern Co is an electric and gas utility serving Georgia, Alabama, Mississippi, and Tennessee.**
- **The utility can expect above average customer growth and is in an expanding data center region. The company's two new nuclear generators should provide cost advantages and benefit from clean energy regulations and tax benefits.**
- **The stock has gained momentum and is up 16% over the past three months with a late surge driven by results significantly above peers as 2Q24 earnings increased 39% over 2Q23.**
- **We expect peer-best earnings growth of 9%-10% in 2024. This will be in spite of lower 2H24 results, which could create a buying opportunity if shares respond to earnings.**

SECTOR ROTATION CAN CREATE BUYING OPPORTUNITY



- **Utility stocks tend to perform well when interest rates decline and in periods of lower interest rates.**

- **Historical Solid Sector Performance in Low Interest Rate Environment**
 - **2007 and 2008 - Utilities were 3rd Best Sector in both years.**
 - » 10 year Treasury yield went from 4.8% in January 2007 to 2.4% by December 2008.

 - **2011 – Utilities were Best Sector.**
 - » 10 Year Treasury yield went from 3.4% on January 2011 to 2% by December 2011.

 - **2014 – Utilities were 2nd Best Sector.**
 - » 10 Year Treasury yield went from 2.8% in January 2014 to 2.1% by December 2014.

 - **2018 – Utilities were 2nd Best Sector.**
 - » 10 Year Treasury yield went from 2.5% in January 2018 to 1.9% by December 2018.

■ DUKE ENERGY (DUK)

Target price: \$115

- **Duke is the largest power generating utility in the US with over 50 GWh of capacity. Approximately 95% of its customer base are electric customers with 5% receiving natural gas.**
- **DUK's service region is in high growth regions of North Carolina and South Carolina and also has customers in Florida, Ohio, Kentucky, Indiana, and Tennessee.**
- **The region continues to have a fast growing residential and commercial growth and is expanding its transmission infrastructure to prepare for data center expansion.**
- **We are estimating earnings growth of 5%-6% in 2024 over 2023. The utility has an above average dividend yield of 3.6% and just raised its dividend by 2% with a record date of August 16th.**

■ Top Nuclear Generating Presence by number of reactors/sites

- NextEra - 7
- Dominion – 6
- Duke – 6
- Southern Co – 4
- Xcel – 3
- (AEP, AEE, DTE, EIX, PCG) – 1

■ Top Projected Data Center Growth Potential

- Duke
- Southern Co
- Wisconsin Energy
- American Electric Power
- Sempra
- Edison International

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