

# NDR Sector Views

AUGUST 5, 2025

## Utilities: Marketweight effective 5/15/25

### Key Takeaways

- Utilities was the second best performer in July.
- Clusters of breadth thrust signals, like we have seen recently, have supported cyclical rotations.
- The sector model upgraded Utilities to overweight.

could make this cycle different for Utilities compared to prior ones.

**Indicators to watch:** Utilities saw the most sector model composite improvement in July, with four internal (price-based) and two external (non-price-based) indicators turning bullish. The sector finished with

the highest overall composite score and the model upgraded Utilities to overweight. Given the improved outlook, we have the sector on watch for an upgrade.

#### Sector positives

- Relative P/E remains attractive
- Long-term breadth is holding up
- A Trump tax cut extension could benefit capex-heavy sectors and industries

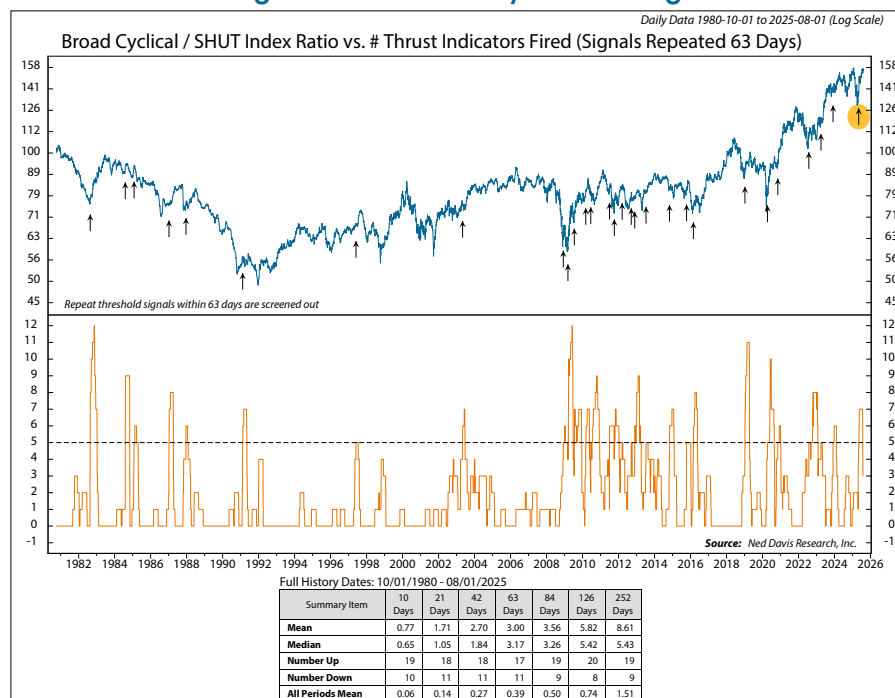
#### Sector negatives

- Net debt to cash flow ratio near record high
- Dividend yield looks less attractive versus bonds
- Low beta is a drag during bull markets

Utilities was the second-best performing sector in July, gaining 4.9%. The sector has also been the second-best performing sector on the year. Utilities has acted less defensively of late as investors view the sector as a backdoor A.I. play given the ongoing infrastructure buildout that requires increasing demand for energy. We maintain our marketweight but may add exposure as the sector model upgraded Utilities to overweight at its month-end update.

**Key drivers:** The stock market's rebound from the April low has been enough to trigger several breadth thrust signals in our Breadth Thrust Watch Report. Historically, when five or more have signaled, it has been bullish for stocks and has supported cyclical over defensive leadership. Utilities' track record has been particularly poor following Breadth Thrust Watch Report signals, outperforming in only 36% of cases six months later and 11% of cases 12 months later. However, the sector's tie to A.I.

### Breadth thrust signals bullish for cyclical longer-term



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## NED DAVIS RESEARCH

NDRsales@ndr.com  
www.ndr.com  
(800) 241-0621

### SARASOTA

3665 Bee Ridge Road Suite 306

Sarasota, FL 34233

United States

800 241 0621 (U.S. & Canada)

941 412 2300

### NEW YORK

1270 Avenue of the Americas

11<sup>th</sup> Floor

New York, NY 10020

(800) 241-0621

### LONDON

4 Bouverie Street

Temple, London

EC4Y 8AX

+44 20 7779 8454



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NDR’s sector team uses a quantitative sector model as the primary guide to deriving our recommendations. The model is designed to identify sectors and industries with the strongest fundamental (macro, economic, valuation, profitability) and technical price trends. Our team uses the model as the framework for our tactical shifts around longer-term fundamental themes. As a discipline, our recommendations are put on a “short leash” if they rank opposite the model’s top and bottom quintiles, unless industry-specific influences can be shown to dominate.

Some sectors receive “over-,” “market-,” or “under-” weight recommendations, which means that the research firm recommends that more, the same, or less of the sector should be held in your portfolio than is held in the market.

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## See the signals.<sup>TM</sup>

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