

# Stock Performance

## HIGHLIGHTS

■ U.S. equities in Q2 extended for a third straight quarter an advance that started in 2022's final quarter. Market strength was narrowly concentrated in Consumer Services (+10.6%) and Technology (+17.9%). The EEI Index (-3.0%) closely paced the broader Utilities sector.

■ A review of presentations associated with utilities' Q1 earnings calls in April and May showed little change in 2023 guidance or the steady growth outlooks that were presented during Q4 earnings calls three months earlier.

■ Analysts cited concern as the year began that rising bills would cool regulators' support for clean energy capex. So far, at least, those fears have not broadly materialized. Analyst reports in Q2 cited a number of 2023 rate decisions that seemed to maintain the balanced and constructive regulatory approach of recent years.

■ Monthly inflation numbers also improved enough to feed bullish spirits; the broad CPI fell from 5.0% in April to 4.1% in May (and to 3.0% in June, released in late July). Bond yields rose but remained below late-2022 highs.

## COMMENTARY

Is 2023's market surge a new bull or just a ripping bear rally? Time will tell. Either way, U.S. equities in Q2 extended for a third straight quarter an advance that started in 2022's final quarter. The Dow Jones Industrial Average returned 4.0%, the S&P 500 returned 8.7% and the Nasdaq Composite jumped 12.8%. Yet despite strong benchmark returns, broad market action was decidedly mixed. Viewed from a sector perspective, market strength was narrowly concentrated in Consumer Services (+10.6%) and Technology (+17.9%). Oil & Gas (-0.9%), Utilities (-2.8%) and Telecommunications

## I. Index Comparison (% Return)

Index	2017	2018	2019	2020	2021	2022	2023*
EEI Index	11.7	3.7	25.8	-1.2	17.1	1.2	-5.8
Dow Jones Ind.	28.1	-3.5	25.3	9.7	21.0	-7.0	4.9
S&P 500	21.8	-4.4	31.5	18.4	28.7	-18.3	16.9
Nasdaq Comp.^	28.2	-3.9	35.2	43.6	21.4	-33.5	31.7

Calendar year returns shown for all periods, except where noted.

\*6 mo. through June 30.

^Price gain/loss only. Other indices show total return.

Source: EEI Finance Department, S&P Global Market Intelligence

## II. Category Comparison (% Return)

### U.S. Investor-Owned Electric Utilities

Index	2017	2018	2019	2020	2021	2022	2023*
All Companies	11.6	4.3	23.1	-8.1	17.6	2.7	-3.2
Regulated	11.7	4.5	24.6	-9.0	16.7	3.6	-2.6
Mostly Regulated	11.3	3.6	17.9	-4.9	21.1	-1.1	-7.5

Calendar year returns shown for all periods except where noted.

Returns shown here are unweighted averages of constituent company returns.

The EEI Index return shown in Table I above is cap-weighted.

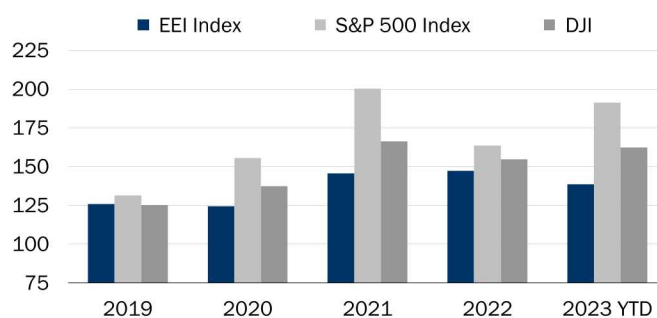
\*6 mo. through June 30.

Note: Diversified category eliminated in 2017 due to lack of constituent companies.

Source: EEI Finance Department, S&P Global Market Intelligence and company reports

## III. Total Return Comparison

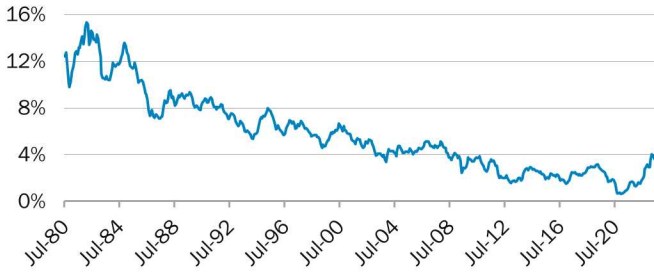
### Value of \$100 invested at close on 12/31/2018



Source: EEI Finance Department, S&P Global Market Intelligence

### IV. 10-Year Treasury Yield — Monthly

Average Monthly Yield, 1/1/1980 through 6/30/2023



Source: U.S. Federal Reserve

### V. 10-Year Treasury Yield — Weekly

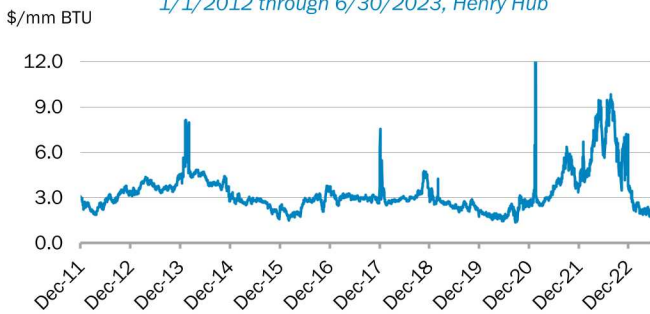
Weekly Yield, 1/1/2008 through 6/30/2023



Source: U.S. Federal Reserve

### VI. Natural Gas Spot Prices

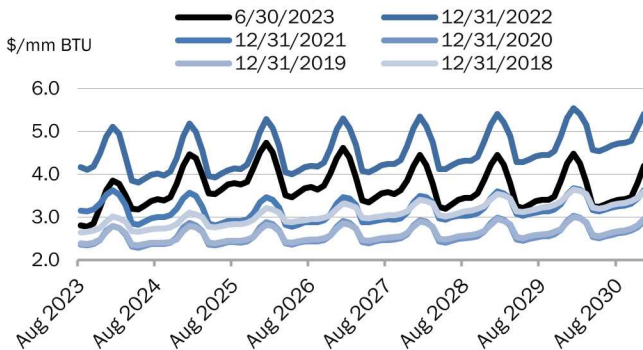
1/1/2012 through 6/30/2023, Henry Hub



Source: S&P Global Market Intelligence

### VII. NYMEX Natural Gas Futures

8/2023 through 12/2030, Henry Hub



Source: S&P Global Market Intelligence

### VIII. Returns by Quarter

U.S. Investor-Owned Electric Utilities

Index	2020	2020	2021	2021	2021	2021	2022	2022	2022	2022	2023	2023
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EEl Index	5.6	6.5	3.0	-0.7	1.4	12.9	4.8	-4.9	-6.7	8.8	-2.9	-3.0
Dow Jones Industrial	8.2	10.7	8.3	5.1	-1.5	7.9	-4.0	-10.9	-6.2	15.8	0.9	4.0
S&P 500	8.9	12.2	6.2	8.6	0.6	11.0	-4.6	-16.1	-4.9	7.3	7.5	8.7
Nasdaq Comp. <sup>^</sup>	11.0	15.4	2.8	9.5	-0.4	8.3	-9.0	-23.0	-3.5	-1.6	16.8	12.8

Category*	2020	2020	2021	2021	2021	2021	2022	2022	2022	2022	2023	2023
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
All Companies	1.3	8.8	6.0	0.3	-0.7	11.5	5.2	-3.8	-8.3	10.7	-0.5	-2.7
Regulated	-0.1	8.6	4.8	0.3	-0.7	11.9	6.4	-3.6	-8.2	10.0	0.0	-2.5
Mostly Regulated	6.2	9.3	10.6	0.3	-0.8	10.1	0.0	-5.0	-9.0	14.3	-3.8	-3.9

<sup>^</sup>Price gain/(loss) only. Other indices show total return. / \* Returns shown here are unweighted averages of constituent company returns. The EEl Index return shown above is cap-weighted. Source: EEl Finance Department, S&P Global Market Intelligence

### IX. Sector Comparison, Trailing 3 mo. Total Return

For the three-month period ending 6/30/2023

Sector	Total Return
Technology	17.9%
Consumer Services	10.6%
Industrials	6.4%
Consumer Goods	5.8%
Financials	4.9%
Healthcare	2.7%
Basic Materials	1.1%
Oil & Gas	-0.9%
Utilities	-2.8%
EEl Index	-3.0%
Telecommunications	-7.9%

Note: Sector Comparison page based on the Dow Jones U.S. Indexes, which are market-capitalization-weighted indices. Source: EEl Finance Dept., Dow Jones & Company, Google Finance, Y Charts

### X. Sector Comparison, Trailing 12 mo. Total Return

For the twelve-month period ending 6/30/2023

Sector	Total Return
Technology	37.8%
Consumer Services	24.0%
Industrials	21.9%
Oil & Gas	18.0%
Basic Materials	17.4%
Consumer Goods	11.0%
Financials	8.5%
Healthcare	5.1%
Utilities	-3.5%
EEl Index	-4.3%
Telecommunications	-16.6%

Note: Sector Comparison page based on the Dow Jones U.S. Indexes, which are market-capitalization-weighted indices. Source: EEl Finance Dept., Dow Jones & Company, Google Finance, Y Charts

XI. Market Capitalization at June 30, 2023 (in \$ Millions)

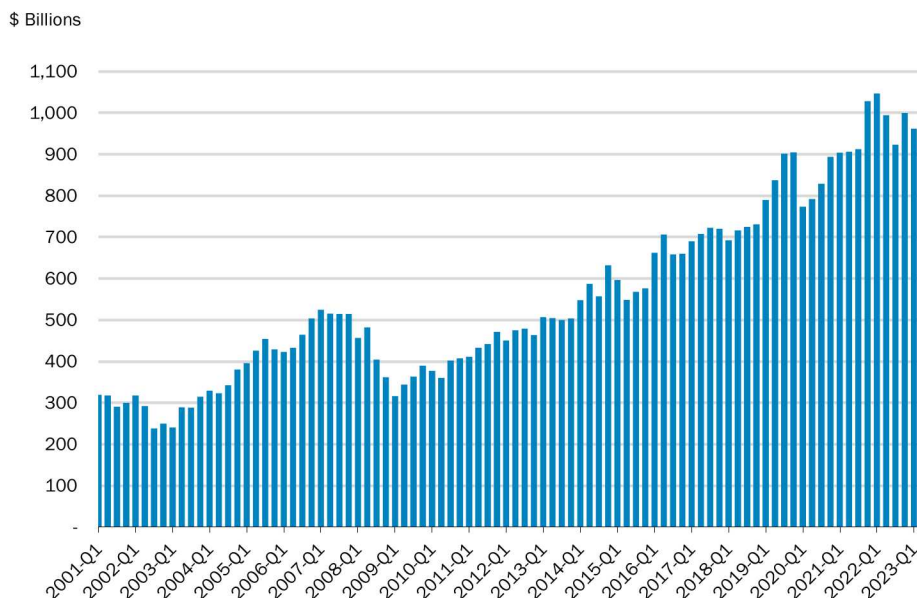
U.S. Investor-Owned Electric Utilities

Company	Stock Symbol	\$ Market Cap	% Total	Company	Stock Symbol	\$ Market Cap	% Total
NextEra Energy, Inc.	NEE	148,393	15.94%	CMS Energy Corporation	CMS	17,079	1.83%
Southern Company	SO	76,643	8.23%	AVANGRID, Inc.	AGR	14,573	1.57%
Duke Energy Corporation	DUK	69,100	7.42%	Eergy, Inc.	EVRG	13,437	1.44%
Sempra Energy	SRE	45,849	4.93%	Alliant Energy Corporation	LNT	13,183	1.42%
American Electric Power Co., Inc.	AEP	43,294	4.65%	NiSource Inc.	NI	11,290	1.21%
Dominion Energy, Inc.	D	43,255	4.65%	Pinnacle West Capital Corp.	PNW	9,234	0.99%
Exelon Corporation	EXC	40,536	4.35%	OGE Energy Corp.	OGE	7,189	0.77%
PG&E Corporation	PCG	34,404	3.70%	IDACORP, Inc.	IDA	5,201	0.56%
Xcel Energy Inc.	XEL	34,256	3.68%	Portland General Electric Co.	POR	4,301	0.46%
Consolidated Edison, Inc.	ED	31,902	3.43%	MDU Resources Group, Inc.	MDU	4,264	0.46%
Public Service Enter. Group Inc.	PEG	31,117	3.34%	Black Hills Corporation	BKH	3,979	0.43%
WEC Energy Group, Inc.	WEC	27,831	2.99%	Hawaiian Electric Industries, Inc.	HE	3,964	0.43%
Edison International	EIX	26,599	2.86%	PNM Resources, Inc.	PNM	3,883	0.42%
Eversource Energy	ES	24,766	2.66%	NorthWestern Corporation	NWE	3,393	0.36%
DTE Energy Company	DTE	22,664	2.43%	ALLETE, Inc.	ALE	3,322	0.36%
FirstEnergy Corp.	FE	22,239	2.39%	Otter Tail Corporation	OTTR	3,287	0.35%
Ameren Corporation	AEE	21,414	2.30%	Avista Corporation	AVA	2,952	0.32%
Entergy Corporation	ETR	20,579	2.21%	MGE Energy, Inc.	MGEE	2,861	0.31%
PPL Corporation	PPL	19,496	2.09%	Unitil Corporation	UTL	811	0.09%
CenterPoint Energy, Inc.	CNP	18,374	1.97%	<b>Total Industry</b>		<b>930,914</b>	<b>100.00%</b>

Source: EEI Finance Dept., S&P Global Market Intelligence

XII. EEI Index Market Capitalization (at Period End)

U.S. Investor-Owned Electric Utilities



Note: Change in EEI Index market capitalization reflects the impact of buyout and spin-off activity in addition to stock market performance.

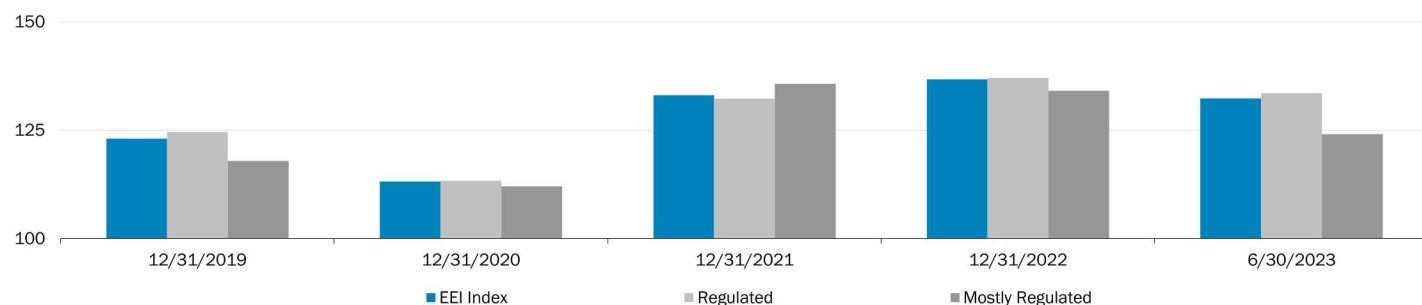
Source: EEI Finance Dept., S&P Global Market Intelligence

EEI Index Market Cap (in \$ Billions)

2007-Q3	515	2015-Q3	568
2007-Q4	514	2015-Q4	577
2008-Q1	457	2016-Q1	663
2008-Q2	482	2016-Q2	706
2008-Q3	404	2016-Q3	659
2008-Q4	362	2016-Q4	660
2009-Q1	316	2017-Q1	690
2009-Q2	344	2017-Q2	708
2009-Q3	363	2017-Q3	722
2009-Q4	390	2017-Q4	720
2010-Q1	377	2018-Q1	692
2010-Q2	360	2018-Q2	716
2010-Q3	402	2018-Q3	725
2010-Q4	407	2018-Q4	731
2011-Q1	411	2019-Q1	790
2011-Q2	433	2019-Q2	838
2011-Q3	442	2019-Q3	902
2011-Q4	472	2019-Q4	905
2012-Q1	451	2020-Q1	773
2012-Q2	475	2020-Q2	792
2012-Q3	480	2020-Q3	830
2012-Q4	464	2020-Q4	894
2013-Q1	507	2021-Q1	905
2013-Q2	505	2021-Q2	907
2013-Q3	500	2021-Q3	913
2013-Q4	504	2021-Q4	1,028
2014-Q1	548	2022-Q1	1,047
2014-Q2	588	2022-Q2	995
2014-Q3	557	2022-Q3	924
2014-Q4	632	2022-Q4	1000
2015-Q1	597	2023-Q1	962
2015-Q2	549	2023-Q2	931

### XIII. Comparative Category Total Annual Returns

U.S. Investor-Owned Electric Utilities, Value of \$100 invested at close on 12/31/2018



	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	6/30/2023
EEI Index Annual Return (%)		23.06	(8.07)	17.62	2.74	(3.18)
EEI Index Cumulative Return (\$)	100.00	123.06	113.12	133.05	136.69	132.34
Regulated EEI Index Annual Return		24.56	(9.01)	16.72	3.59	(2.55)
Regulated EEI Index Cumulative Return	100.00	124.56	113.33	132.28	137.03	133.54
Mostly Regulated EEI Index Annual Return		17.87	(4.95)	21.09	(1.15)	(7.49)
Mostly Regulated EEI Index Cumulative Return	100.00	117.87	112.04	135.67	134.12	124.07

Calendar year returns shown, except where noted.  
Diversified category eliminated in 2017 due to lack of constituent companies.  
Returns are unweighted averages of constituent company returns.

(-7.9%) ended Q2 in the red. Basic Materials (+1.1%) and Healthcare (+2.7%) achieved only incremental gains. The EEI Index (-3.0%) closely paced the broader Utilities sector.

Pundits cited investor enthusiasm over the commercialization potential of artificial intelligence (AI) and machine learning (ML) as one trigger for tech strength. Excitement grew in part from ChatGPT's impressive debut in late 2022 as an enhanced internet search technology with interactive Q&A capabilities powered by a variety of natural language processing (NLP) algorithms. This AI/ML-fueled rally drove the Nasdaq up 31.2% in 2023's first half and powered the S&P 500 to a 16.9% return.

#### Recession Fears Ease

Bullish sentiment in Q2 was also supported by diminishing recession fears, which were widespread when the year commenced. Even the Federal Reserve, based on minutes from its March meeting, saw likelihood of what it called a "mild recession" in late 2023. However, buoyant economic data in Q2 lifted hopes for positive GDP prints in the year's second half. Employment remained strong while estimated Q1 real gross domestic product (GDP) rose from a first estimate of 1.1% in late April to a second estimate of 1.3% in May to 2.0% by late June. Monthly inflation numbers also improved enough to feed bullish spirits; the broad CPI fell from 5.0% in April to 4.1% in May (and to 3.0% in June, released in late July).

### XIV. EEI Index Top Ten Performers

For the six-month period ending 6/30/2023

Company	% Return	Category
Otter Tail Corporation	36.1	R
MGE Energy, Inc.	13.5	R
Edison International	11.5	R
Pinnacle West Capital Corporation	9.4	R
PG&E Corporation	6.3	R
Public Service Enterprise Group Inc.	4.1	R
MDU Resources Group, Inc.	3.0	MR
NiSource Inc.	1.6	R
Southern Company	0.3	R
Unitil Corporation	0.2	R

Note: Return figures include capital gains and dividends.  
R = Regulated, MR = Mostly Regulated  
Source: EEI Finance Department

#### Rates Rise as Fed Hikes Continue

The improved economic sentiment gave the Fed enough confidence to raise short-term rates another 25 basis points at its May 2-3 meeting (although it held rates steady when it met in mid June). The three-month Treasury bill yield climbed from 4.7% in early April to 5.2% by late June. Long rates also drifted steadily higher during the quarter; the 10-year Treasury yield rose from 3.3% in early April to 3.8% as the quarter ended. Yet long rates remained below the 4.2% reached in October 2022. And the Treasury yield curve

remained inverted, with a 10-year versus three-month differential below -1.5% throughout Q2; either the bond market expects inflation to fall well below current levels or it doesn't quite buy the economic confidence that helped stocks in Q2. Wall Street research cited the healthy and rising yields available on cash as one headwind for utilities and other capital intensive sectors: "Why invest in utilities when you can get 5% in the bank?" quipped one analyst report as a summary of its investment client thinking.

### Weather Dampens Q2 Demand

The warm winter weather that colored Q1 electricity demand continued in April, with heating degree days for the month below normal and below last year's total. Cooling degree days in June were also below normal and the year-ago level. Partly as a result, nationwide generation was flat in April and down about 4% in May (June data was not available at publication). However, weather-driven short-term demand changes rarely influence investor perceptions, which instead focus on the long-term capital spending plans that fuel earning growth and the degree of support offered by regulators.

### Natural Gas Well Below 2022 Highs

Natural gas spot prices spent most of Q2 range-bound between \$1.80 and \$2.30, far below the \$6.00 to \$9.00 range of mid-2022 and mirroring the softening inflation data seen across the economy. Because power prices in competitive electricity markets are sometimes driven by natural gas generation as a price setting fuel, the sharp pullback in spot natural gas may have dampened sentiment toward competitive generation operations. Yet with most utilities embracing regulated capex as a primary growth strategy, it's likely any any industry-wide stock price impact here was muted.

### Earnings Calls in Q2 Indicate Steady Fundamentals

All 39 publicly traded utilities in the EEI Index hold quarterly earnings calls with investors; calls to discuss Q1 results occur from late April through May. A review of all 39 investor presentations associated with these calls showed little change in the optimistic and steady growth outlooks that were presented during Q4 earnings calls three months earlier. While most utilities cited warm weather as an earnings drag in Q1, there were no meaningful cuts to full-year 2023 earnings guidance. Most affirmed long-term earnings and dividend growth rates, which cluster at 5% to 7% or 6% to 8% across much of the industry. Other themes from calls held during Q1 persisted in Q2. Several utilities continued to cite opportunities to constrain operations and maintenance (O&M) expenses. Some cited strong local economies and fairly strong load growth outlooks. Others mentioned

electric vehicles (EV) as a growth wild card depending on the pace of EV adoption and regulatory treatment of related infrastructure. A few mentioned data centers as a relatively new demand source.

### Wall Street Focuses on Regulation

EIA data shows the average U.S. urban electricity rate held near or below \$0.14 per kilowatt-hour (kwh) from 2013 to early 2021. Rising fuel costs pushed that up to \$0.17 by Q2 2023, with year-to-year bill inflation ranging from 8% to 17% during 2022. Regulators' perspectives on electricity bills and capex outlooks received close scrutiny in Wall Street's published research throughout 2023's first half. Analysts cited concern as the year began that rising bills would cool regulators' support for clean energy capex. So far, at least, those fears have not broadly materialized. Analyst reports in Q2 cited a number of 2023 rate decisions that seemed to maintain the balanced and constructive regulatory approach of recent years. They also noted the fallback in natural gas prices will ease the fuel cost pressure in bills going forward.

Of course, utility management teams are acutely aware of the need to manage regulators' and state lawmakers' concerns. In fact, one analyst remarked that messaging in Q1's earnings calls held in April/May seemed focused on a state regulator audience rather than the traditional investor/analyst audience. Company presentations also conveyed a strong sensitivity to bill affordability, citing a need to work closely with state regulators to produce the clean energy revolution without undue bill pressures. Most saw regulatory relationships as broadly constructive and supportive of clean energy goals.

Companies also indicated an aversion to equity dilution and pitched as a total return potential the combination of earnings growth and a 3% or higher dividend yield.

### Boring or Safe Haven?

Relative to most other industries, utilities offer predictable earnings and dividends. Sometimes, as in 2023's first half, investors find this boring; ebullient sentiment shuns safety and bids less-predictable sectors with good growth stories to strong hope-fueled gains. By some accounts, 2023's first half was the worst for utility stocks on a relative basis since the 1980s. But that trend can reverse as quickly as it appeared if a bear market reasserts itself, as it did after the 1990s tech bubble burst. If it does, utilities will likely shine again as a relative safe haven. And if a new bull market has commenced, utilities will likely catch up as long as capex outlooks remain stable and inflation continues to fade, holding bond yields down even as the economy grows. Investors may get 5% cash yields at a bank, but they won't get earnings growth or dividend growth or capital gains. ■