# Utility Sector in S&P 500 Surges in 2024 Amid Investor Shift



The utility sector within the S&P 500 has demonstrated robust performance in 2024, becoming the third-best-performing category with a significant 14% gain. This sector is currently outperforming the overall index’s 11% climb. Notable companies such as Vistra, Constellation Energy, and NRG Energy have seen their shares surge by 152%, 91%, and 63%, respectively, which is a stark contrast to the sector's decline of over 10% in the previous year.

Investors have redirected their focus from high-dividend stocks and big tech to utilities, as high interest rates had initially made bonds more attractive. However, the high valuations of major tech stocks and the essential nature of utilities have shifted interest. Utilities are now seen as pivotal in supporting the infrastructure necessary for artificial intelligence (AI) operations. The utilities sector’s current valuation trades at approximately 17 times its expected earnings over the next 12 months, lower than the S&P 500 and the information technology sector.

Factors such as durable defensive qualities in a volatile economy and rising demand for electricity to power AI and electric vehicles contribute to this shift. The International Energy Agency anticipates that the demand for AI-related electricity will increase tenfold by 2026, further bolstering the sector’s attractiveness.

Meanwhile, the U.S. Consumer Price Index (CPI) data for April 2024 indicated a 3.4% rise in consumer prices over the last year, slightly down from March's 3.5%. This development feeds into investor expectations that the Federal Reserve may cut interest rates later in the year.

Lastly, Asian markets reflected positive movement, riding on the positive sentiment from Wall Street’s rally. Tokyo’s Nikkei 225, Hong Kong’s Hang Seng, and Australia’s S&P/ASX 200 showed gains. This optimism spread after the U.S. markets hit new records, bolstered by hopes of stabilizing inflation and potential interest rate cuts.