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Why utilities stocks are now thrilling investors

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Ryan Hammond: Is the surge in utilities stocks overdone?

The utilities sector has returned 13% in the last three months- making it the market leader- while the equal-weight S&P 500 is up just 1%. We believe there are two factors working in the sector's favor.

First, due in part to the rise of AI, power demand is expected to increase substantially over the next decade. That should be a strong secular driver for the sector.

Second, utilities are a defensive play- since people still need electricity even during challenging economic environments. Historically, the sector fares better than most when economic growth slows. And while utilities valuations have risen, they do not appear demanding. In fact, the sector's PEG ratio, which compares its price-to-earnings ratio to long term growth expectations, remains below historical average.

With the sector's mix of AI exposure and defensiveness, we think the utilities rally has room to run.

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