

This sector just had a historic run – but may no longer be an attractive pick



Rebecca Ungarino | [@ungarino](#)
Monday, 27 Feb 2017 | 8:34 AM ET



The utilities sector just logged four-straight weeks in the green, and is positive on the year, but some market watchers say names in the space might not be the best picks right now.

The exchange-traded fund tracking the utilities sector ([XLU](#)) rose 4 percent last week for its best one-week performance since summer of 2015, leading the market as the best-performing sector for the week.

But Erin Gibbs, equity chief investment officer at S&P Global, said that while the sector isn't very expensive at current levels — trading slightly above its three-year forward price-to-earnings ratio — it is expected to yield the worst profits growth this year.

In fact, utilities are the only group expected to yield negative or contracting profit growth for 2017, according to S&P Global data.

"That, combined with potentially raising interest rates — that hurts utilities on a two-fold basis. One, it makes dividend yields look less attractive; and two, they're capital-intensive — they're going to have higher borrowing costs. So we just don't see it as a strategic play for 2017," Gibbs said Friday on CNBC's "[Trading Nation](#)."

Funds currently have record underweight positioning in staples and utilities — two traditionally defensive sectors — and near-record lows in telecom, according to a new report from Bank of America Merrill Lynch's U.S. equity and quantitative strategy team.

The rise in utilities stocks comes as bond yields sink, with the 10-year Treasury yield approaching a three-month low on Friday. A direct relationship between Treasury yield and high-dividend stocks [may or](#)

TRADING NATION



The strange energy slide could spell opportunity

Though energy is the second-worst sector in the S&P 500 year to date, some strategists see a buying opportunity afoot.



Trader bets against bonds ahead of Fed meeting

Todd Gordon of [TradingAnalysis.com](#) sees a bond breakdown ahead as chances of a March rate hike loom.



The technical reason why Tesla shares could soon rise 54%

Tesla could see 54 percent of upside — about \$134 from its Monday closing price — if one analyst's examination holds up.



Gold starts the year off strong—and some say it's about to get even better

Gold edged higher Monday, rising to a three-month high, and some strategists see the yellow metal moving higher.

MORE FROM TRADING NATION

[This sector just had a historic run – but may no longer be an attractive pick](#)

[Avoid these two plunging stocks, strategists warn](#)

[Robert Shiller: With stock valuations high, it's time to reduce your holdings](#)

[Tech stocks just broke a historic winning streak](#)

[Bitcoin is surging – but that might not mean what you think](#)

[It's time to ditch one of the past year's hottest trades](#)

[This stock is up 100% in one year, but may still be cheap](#)

[Why Trump's much-awaited tax plan announcement could be a 'sell the news' event](#)

[Why strategist Tom Lee is turning bullish on these four hot stocks](#)

[The case for buying the biotech bounce](#)

may not make economic sense, but it remains the case that when bond market returns become less attractive, investors appear to show a preference for high-dividend payers. The XLU offers a yield of more than 4 percent, more than double that of the ETF [SPY](#), which tracks the whole [S&P 500](#).

Integrated power company [NRG Energy](#) is the best-performing stock in the sector so far this year, up 42 percent. Shares of the stock [surged last week](#) after Paul Singer's Elliott Management said it has partnered with investment firm BlueScape Energy Partners to push for changes at the NRG.

[Rebecca Ungarino](#)
Associate Producer

RELATED SECURITIES

Symbol	Price	Change	%Change
NRG	16.56 ▼	-0.21	-1.25%
XLU	51.77 ▲	0.47	0.92%

Trading Nation will offer enthusiast traders insights from a group of "Trader Coaches," a collection of expert CNBC Contributors who are well-versed in the daily challenges of trading. Each "Trader Coach" will have a different area of expertise, and will share their unique perspective on the markets, allowing new insights to emerge from this collaboration. Trading Nation is not simply about finding that next trade; it's a forum where enthusiast traders can hear and compare investing ideas in order to build confidence in their trading decisions.

ON-AIR VIDEO ›



[Trading Nation: Goldman takes down Tesla](#)

Stacey Gilbert, Susquehanna, and Rich Ross, Evercore ISI, discuss the trade in Tesla following a downgrade from Goldman Sachs, with Brian Sullivan.



[Trading Nation: Gold's fourth winning week](#)

Erin Gibbs, S&P Global, and Zachary Karabell, Envestnet, discuss the run in gold with Brian Sullivan.



[Trading Nation: Record run for tech stocks](#)

Eddy Elfenbein, Crossing Wall Street blog, joins Ari Wald of Oppenheimer, to discuss where the tech sector is headed.

@TRADINGNATION

[Tweets by @TradingNation](#)

HOST



[Brian Sullivan](#)
"Power Lunch" Co-Anchor

TRADING NATION TUTORIALS ›

- [How to use the price-to-earnings ratio](#) ▶
- [Using support and resistance levels](#) ▶