Edward Jones

Utility Stock Prices and Interest Rates

UTILITIES SECTOR REPORT

For more information:

If you have any questions, please contact a local Edward Jones financial advisor, or write to: Edward Jones,12555 Manchester Road, St. Louis, MO 63131.

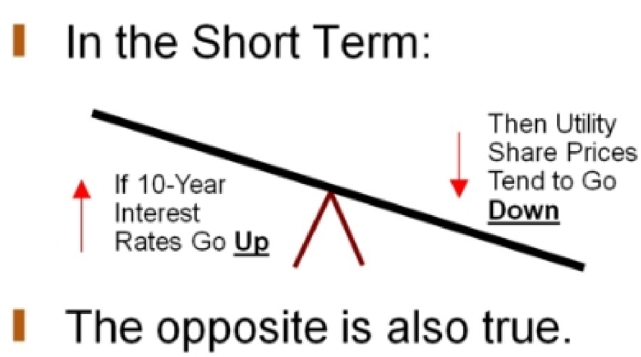
Higher dividend-paying stocks historically have tended to exhibit a strong relationship between their dividend yields and long-term interest rates (i.e., 10-year Treasury bond rate). If long-term interest rates rise (all else being equal), utilities typically see declines in share price. However, we believe that by owning quality utility stocks in appropriate amounts, investors have the ability to earn a competitive total return over the long term.*

Assuming a 1-for-1 relationship between changes in long-term interest rates and utility stock yields, an immediate upward shift in long-term interest rates by 0.5%, 1.0%, 1.5% and 2.0% would imply the following price declines:

Increase in Interest Rates		**+0.5%**	**+1.0%**	**+1.5%**	**+2.0%**
Yield	5.0%	5.5%	6.0%	6.5%	7.0%
Annual Dividend	$0.50	$0.50	$0.50	$0.50	$0.50
Stock Price	$10.00	$9.09	$8.33	$7.69	$7.14
Price Decline		-9.1%	-16.7%	-23.1%	-28.6%
Equivalent Years of Dividends		1.8	3.3	4.6	5.7

Source: Edward Jones Calculations, Stock price estimated by dividing the annual dividend by yield. Equivalent years of dividends calculated as the dollar loss in the stock's price divided by the annual dividend amount.

While this example is hypothetical, it is important to note that utilities can react differently to increases in interest rates than what is shown above. With interest rates up significantly in 2022, the S&P 500 Utilities Index** finished the year down very slightly, but not by as much as this example would imply. We believe utility stock prices performed relatively well in 2022 because of the defensive nature of the industry. Investors tend to seek stocks in defensive sectors when the fear of recession increases. However, in 2023, the S&P 500 Utilities Index greatly underperformed the broader market, perhaps reflecting a delayed reaction to the rise in interest rates in 2022, as investors were also less defensive in 2023.



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Please see important disclosures and analyst certification on page 2 of the report.

A Case History

History provides us with examples of what can happen. From 10/15/93 to 11/07/94, the yield on the 10-year T-bond increased rapidly from 5.17% to 8.03%. During this time, the S&P 500 Utilities Index** declined over 23%. However, the long-term performance of this index has been much better. Over the last several decades, the S&P Utilities Index has provided mid-single-digit average annual total returns.

What Investors Should Do

We believe utilities have a place in investors' portfolios because they typically provide both the potential for dividends and, when bought with other stocks, diversification. We follow several utilities with a Buy rating. However, investors should understand that prices of utility stocks can decline significantly over the short term (without a change in company fundamentals) due to increases in long-term interest rates. Please see your financial advisor for a portfolio review, if necessary, to help ensure your portfolio is properly diversified.

***It is important to remember there are risks to investing in stocks. Share prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely.

****The S&P 500 Utilities Index consists of 30 companies within the S&P 500 Index. The S&P 500 Index is based on the average performance of 500 widely held common stocks. These are unmanaged indexes and cannot be invested in directly. **Past performance is no guarantee of future results.**

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I certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.
Mike Doyle, CFA

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An index is not managed and is unavailable for direct investment.

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