Neue Bank

European Utilities: Stability in Uncertain Times

Background

The conflict with Iran and the ongoing attacks on energy infrastructure have the world on edge. Oil production facilities and loading stations in the Middle East have been severely damaged. The Strait of Hormuz has been closed by the US since Monday at 4:00 PM (CEST). At the same time, Ukraine is intensifying its attacks on oil and gas facilities in Russia. There is currently no end in sight.

Despite these risks, the capital markets are showing remarkable composure. The geopolitical tensions will undoubtedly affect global politics, and the secondary effects will certainly continue to impact the global economy and businesses until the end of the year.

In our current monthly opinion piece «Energy Crises in retrospect: How much guidance does history offer?» we analyze historical energy crises and derive patterns and lessons for the present.

Investment Idea: Focus on European Utilities

In an environment of heightened uncertainty, a structured, disciplined investment strategy proves its worth. Against this backdrop, European Utility stocks are moving into the spotlight. Since 2025, these stocks have outperformed the STOXX Europe 600. They benefit from investors realizing profits in technology stocks - including the «Magnificent 7» - and increasingly shifting their investments into defensive, stable business models.

Why European Utilities are attractive now:

- **Defensive business models**
  European utilities operate predominantly regionally, are heavily regulated, and face high barriers to entry. The current conflicts in the Middle East have only a limited operational impact on them.

- **Low dependence on US tariffs**
  US tariff policy has little impact on these companies, as their core business is in Europe.

- **Tailwinds from structural megatrends**
  - Energy transition and decarbonization
  - Electrification of mobility, industry, and households
  - Digitalization and growing electricity demand
  - Data centers for artificial intelligence as new major consumers

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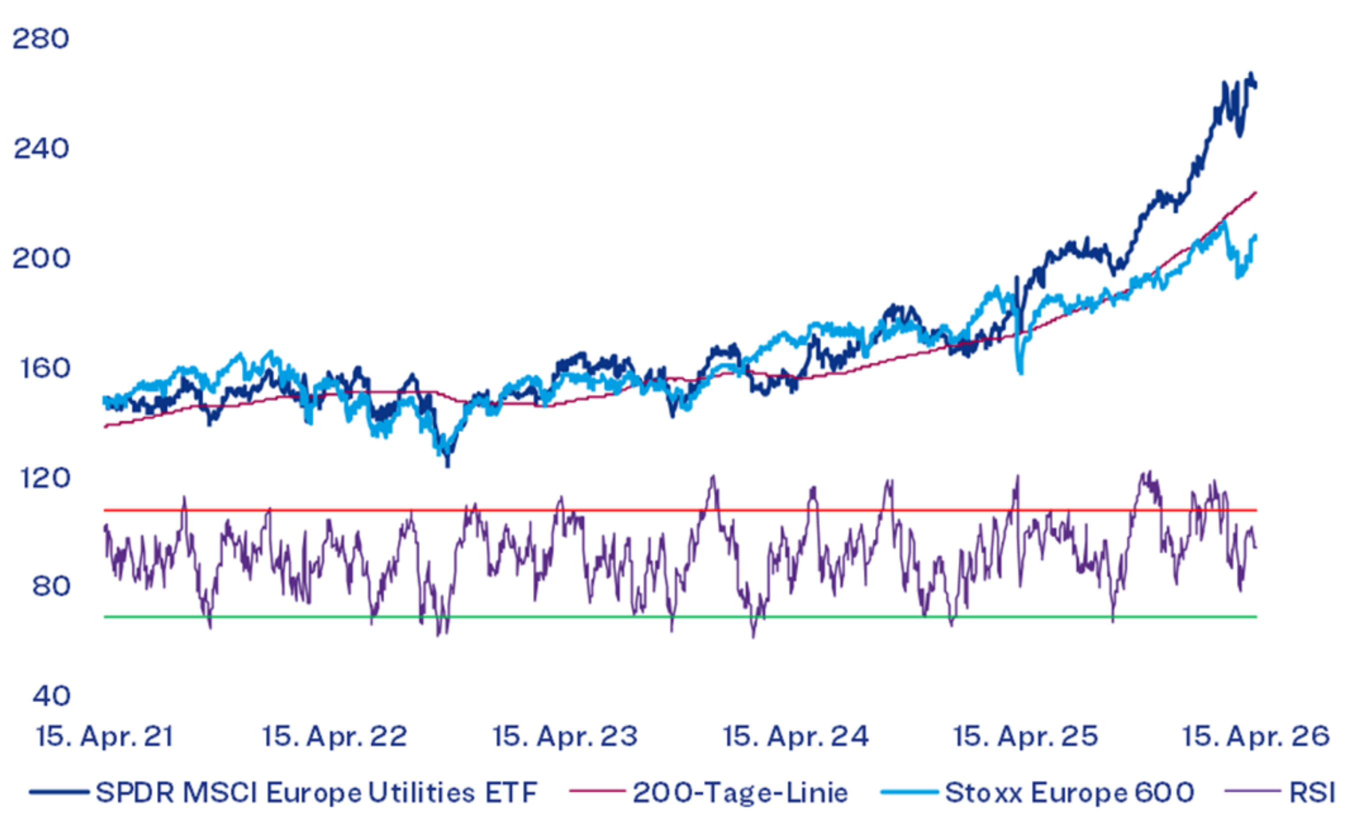
- **High predictability of earnings**
  Long-term contracts, some of which are indexed to inflation, as well as government subsidy programs, increase the visibility of cash flows. Grid expansions are becoming more affordable, and modernized grids provide steady, predictable revenues.

- **Attractive valuation and payout**
  - Price-to-earnings ratio (P/E ratio) of around 14
  - Dividend yields around 5%
  - This makes European utilities an attractive risk-reward profile in the current market environment.

For efficient and broadly diversified implementation, we recommend to buy the following sector ETF at current levels:

- SPDR MSCI Europe Utilities UCITS ETF – current price level around EUR 262.-
  ISIN: IE00BKWQ0P07

This product offers targeted access to European Utility companies and combines the opportunities described in a daily liquid investment instrument.



Quelle: Bloomberg, Neue Bank AG

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