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Utilities Log Fat Gains Amid Market Turmoil.

The price of security in financial markets keeps rising, and many investors are still paying up.

As investors have flooded into government bonds in recent weeks, pushing yields on the 10-year Treasury note to record intraday lows, they also bought shares of utility companies. Known as bond proxies because they pay relatively high dividends and are considered less risky than other S&P 500 sectors, shares of U.S. power and water providers have climbed 21% in 2016, gaining along with other haven assets like gold.

The run-up has made utility shares more expensive than usual compared with their last 12 months of earnings. The price-to-earnings ratio for utility stocks was roughly 21 on Thursday, compared with a 10-year average of 15 and higher than the S&P 500's P/E ratio of 18.

It is a reflection of investors' continued jitters about slowing global growth and the political and economic fallout from the U.K.'s vote to leave the European Union. Utilities were the only S&P 500 sector to rise in the meltdown immediately following the result.

Because utility companies provide critical services to U.S.-based customers, their stocks are relatively isolated from the turmoil overseas, while the recent fall in already-low government bond yields has also made such dividend-paying stocks more attractive in comparison, several analysts and investors said.

A wave of fear in the aftermath of the Brexit vote and an extended period of economic anxiety in 2016 have been more than enough to overwhelm concerns that the stocks are overpriced and suffering from diminishing returns.

"All of those components together lead to a favorable environment for utilities," said Erik Davidson, chief investment officer at Wells Fargo Private Bank. "And yes, valuations are stretched, but if you look at global bonds, valuations are even more stretched."

Last year, the sector lagged behind the broader market, falling 8.4% in 2015 as the S&P 500 lost 0.7%.

Utility stocks in the S&P 500 offer a dividend yield of 3.4% according to FactSet, behind only telecommunication stocks. That compares with a yield of 1.492% on the 10-year Treasury note on Thursday.

Government bond yields hit record lows in countries including Germany and Japan after the U.K. vote. Investors' expectations for a rate increase from the Federal Reserve have fallen precipitously, increasing the appeal of dividend-paying stocks.

Some of the better-performing utility companies this year include American Water Works Co., Inc., which has gained 40%, NiSource Inc., a natural gas and electrical provider that is up 36%, and CenterPoint Energy, which has risen 31%.

There is relative certainty about utilities' performance and ability to pay dividends, said Mike Barclay, senior equity portfolio manager at Columbia Threadneedle Investments. "When people are looking for yield in a low-rate environment, that's very attractive. You can sleep a bit at night."

Other haven assets have also gained considerably this year. Gold is up 25%. Yields on municipal bonds hit historic lows in June. Yields fall as prices rise.

Some investors said that even as low bond yields demonstrate the appeal of relatively safe, income-producing investments, utility stocks have grown very expensive, underscoring the risk of sinking money into stocks that have already shown big gains.

Other assets favored because of their dividends have taken a hit recently. These includes bank stocks, which have fallen amid concerns that low rates will pressure their profits, and energy-focused master limited partnerships, which suffered when oil prices fell.

"Don't chase income and especially don't chase it after everyone else has started chasing it," said Allan Roth, a financial adviser at Wealth Logic in Colorado Springs. "The fact that utilities have gone up so much means it's an especially poor time to do it."

While expectations for rising rates have dwindled, utility stocks are expected to suffer if bond yields rise, making debt more competitive with the shares because investors have less need for utilities' income. Economic growth could also cause investors to rotate to faster-growing sectors, leaving utilities behind.

"If we see growth prevail, we suspect they'll be less rewarded than other spaces," said Eric Wiegand, senior portfolio manager at U.S. Bank's Private Client Reserve.

Still, some investors and analysts said it makes sense to stick with the stocks because there are few alternatives.

"People come in, they hit the switch and they expect the lights to go on," said Jack Caffrey, equity portfolio manager at J.P. Morgan Private Bank. He has trimmed his utility exposure, but the run-up means he's still overweight the sector. "You're not worrying about how a plebiscite in a country 12 hours away is going to do to demand for electricity."

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