# Market Commentary

DAVENPORT & COMPANY
EQUITY RESEARCH

**July 2018**

Trade and tariff concerns combined with rising oil prices weighed on equity markets in June with President Trump periodically providing twitter commentary that added to an atmosphere of increasing uncertainty. The tariff overhang appeared to weigh particularly heavily on technology shares with markets fearful of a tit-for-tat trade war emerging between the U.S. and China. Meanwhile, oil prices spiked to levels not seen since 2014 as weekly crude supplies experienced the largest drop of the year amounting to 9.9 million barrels at month end.

The VIX volatility index also known as the "Fear Index" tells the story of rising investor angst over the past month as the early-June bottom troughed at around the 11.5 level before beginning a relatively steady progression higher towards the 18-20 range by month end. With a flurry of news late in the month around Trump, trade, tariffs and crude, volatility repeatedly spiked with major equity indexes suffering across the board weakness. For the full month, equity market performance was mixed with the Dow Jones Industrial Average down 0.6%, the S&P 500 index up 0.5%, and the smaller cap weighted Russell 2000 up 0.6%.

S&P 500 performance by sector during June was led by stocks in the real estate sector up a solid 3.9%, followed by consumer discretionary up 3.5%. The weakest performance in the month was posted by the industrials sector which dropped by 3.4%, followed by financials down 2.0%. Over the last twelve months, the information technology sector was the best performer with a 29.6% increase followed by consumer discretionary up 21.9% and energy up 17.5, while consumer staples stocks have lagged the most with a yearly drop of 6.7% followed by telecom services down 3.8%.

There was an historic shift in the Dow during June with the removal of long-time Dow Jones Industrial Average member General Electric (GE) from the index. GE had been one of the original members of the Dow Jones Industrial Average when it was formed back in 1896 by Charles Dow and had been a continuous member since 1907. Replacing GE in the Dow will be pharmacy giant Walgreens Boots Alliance (WBA).

After raising the fed funds rates in mid-June, the Fed also announced plans to raise the benchmark interest rate four times this year, compared to the previously planned three rate hikes. The economic backdrop, with modest wage rate growth and increasing inflation, appears to have weighed on the decision around the pace of hikes with the FOMC divided upon the appropriate pace. The Fed did reach its long-term target inflation rate target of 2% in June, slightly ahead of the consensus expectation of reaching this rate later in the summer. The inflation backdrop, measured by CPI, has risen considerably, paced by increases in healthcare, gasoline and home prices while seeing declines in autos, airline fares, wireless and cable prices.

Lack of supply and rising prices continue to impact the housing market with little relief in sight. Existing home sales reported in late June dropped 0.4% in May from April with the average home for sale on the market for just 26 days according to the National Association of Realtors. This is the second straight month of sequential drops in home sales as supply continues to constrain markets. The imbalance in the marketplace is seen in the 4.1 months of available housing inventory calculated at the current sales pace versus the historical balanced market level of 6 months, per MarketWatch. Existing home sales prices, which rose 4.9% for the month, averaged $264,800 and appears to be presenting a barrier to first-time home buyers which comprised 31% of buyers in May versus 33% in April and well below the long-term average of 40%.

We continue to look for benefits from tax reform as a catalyst that could move markets upward as earnings estimates continue to adjust higher. We also continue to monitor the interest rate environment given recent moves in key rates. We remain focused on high quality domestic-oriented equities and continue to think the long-term outlook remains favorable with an improving GDP and steady jobs environment. This view is somewhat tempered by uncertain consumer behavior particularly given the dependency of the U.S. economy on consumer spending. In addition, we view corrections as a normal part of long-term stock market behavior recognizing that there remain macroeconomic and geopolitical uncertainties that could impact results.


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# MARKET AND ECONOMIC STATISTICS

| Market Indices: | 6/29/2018 | 12/29/2017 | % Change YTD | 5/31/2018 | % Change (Monthly) |
|---|---|---|---|---|---|
| S&P Composite | 2,718.37 | 2,673.61 | 1.67% | 2,705.27 | 0.48% |
| Dow Jones Industrials | 24,271.41 | 24,719.22 | -1.81% | 24,415.84 | -0.59% |
| NASDAQ Composite | 7,510.30 | 6,903.39 | 8.79% | 7,442.12 | 0.92% |
| Russell 2000 | 1,643.07 | 1,535.51 | 7.00% | 1,633.61 | 0.58% |
| FTSE 100 | 7,636.93 | 7,687.77 | -0.66% | 7,678.20 | -0.54% |
| Shanghai Composite | 2,847.42 | 3,307.17 | -13.90% | 3,095.47 | -8.01% |
| Nikkei Stock Average | 22,304.51 | 22,764.94 | -2.02% | 22,201.82 | 0.46% |
| Stoxx Europe 600 | 379.93 | 389.18 | -2.38% | 383.06 | -0.82% |
| MSCI Emerging Markets | 1,069.52 | 1,158.45 | -7.68% | 1,120.71 | -4.57% |
| MSCI Emerging Markets Small Cap | 1,084.85 | 1,195.44 | -9.25% | 1,163.74 | -6.78% |

| Performance of S&P 500 by Industry: | % of Index as of 06/29/18 | 1 Month | 3 Month | Year to Date | 12 Months |
|---|---|---|---|---|---|
| Consumer Discretionary | 12.91% | 3.50% | 7.84% | 10.81% | 21.87% |
| Consumer Staples | 6.88% | 4.15% | -2.34% | -9.93% | -6.66% |
| Energy | 6.33% | 0.57% | 12.69% | 5.27% | 17.50% |
| Financials | 13.88% | -2.02% | -3.58% | -4.91% | 7.71% |
| Health Care | 14.11% | 1.51% | 2.66% | 0.99% | 5.33% |
| Industrials | 9.58% | -3.43% | -3.66% | -5.60% | 3.29% |
| Information Technology | 25.87% | -0.39% | 6.75% | 10.17% | 29.60% |
| Materials | 2.60% | 0.12% | 2.05% | -4.03% | 7.77% |
| Telecommunication Services | 2.00% | 2.24% | -2.33% | -10.81% | -3.84% |
| Utilities | 2.97% | 2.46% | 2.80% | -1.52% | -0.18% |
| Real Estate | 2.88% | 3.88% | 5.13% | -0.96% | 1.45% |
| S&P 500 (Absolute performance) | 100.0% | 0.48% | 2.93% | 1.67% | 12.17% |

| Interest Rates: | 6/29/2018 | 12/29/2017 | YTD Change (Basis Points) | 5/31/2018 | % Change (Monthly) |
|---|---|---|---|---|---|
| Fed Funds Effective Rate | 1.91% | 1.33% | 0.58 | 1.70% | 12.35% |
| Prime Rate | 5.00% | 4.50% | 0.50 | 4.75% | 5.26% |
| Three Month Treasury Bill | 1.91% | 1.45% | 0.46 | 1.90% | 0.27% |
| Ten Year Treasury | 2.86% | 2.41% | 0.45 | 2.86% | 0.05% |
| Spread - 10 Year vs 3 Month | 0.95% | 0.96% | -0.00 | 0.95% | -0.38% |

| Foreign Currencies: | 6/29/2018 | 12/29/2017 | % Change YTD | 5/31/2018 | % Change (Monthly) |
|---|---|---|---|---|---|
| Brazil Real (in US dollars) | 0.26 | 0.30 | -14.6% | 0.27 | -3.8% |
| British Pound (in US dollars) | 1.32 | 1.35 | -2.3% | 1.33 | -0.7% |
| Canadian Dollar (in US dollars) | 0.76 | 0.80 | -4.3% | 0.77 | -1.3% |
| Chinese Yuan (per US dollar) | 6.62 | 6.51 | 1.8% | 6.41 | 3.3% |
| Euro (in US dollars) | 1.17 | 1.20 | -2.7% | 1.17 | -0.1% |
| Japanese Yen (per US dollar) | 110.76 | 112.69 | -1.7% | 108.82 | 1.8% |

| Commodity Prices: | 6/29/2018 | 12/29/2017 | % Change YTD | 5/31/2018 | % Change (Monthly) |
|---|---|---|---|---|---|
| CRB (Commodity) Index | 439.11 | 432.34 | 1.6% | 446.27 | -1.6% |
| Gold (Comex spot per troy oz.) | 1253.16 | 1303.05 | -3.8% | 1298.52 | -3.5% |
| Oil (West Texas int. crude) | 74.15 | 60.42 | 22.7% | 67.04 | 10.6% |
| Aluminum (LME spot per metric ton) | 2153.50 | 2256.00 | -4.5% | 2289.25 | -5.9% |
| Natural Gas (Futures 10,000 MMBtu) | 2.92 | 2.95 | -1.0% | 2.95 | -0.9% |

| Economic Indicators: | 5/31/2018 | 12/31/2017 | % Change YTD | 4/30/2018 | % Change (Monthly) |
|---|---|---|---|---|---|
| Consumer Price Index | 250.5 | 247.9 | 1.1% | 250.0 | 0.2% |
| Producer Price Index | 204.3 | 201.1 | 1.6% | 202.3 | 1.0% |
| | **Q1 2018** | **Q4 2017** | **Q3 2017** | **Q2 2017** | **Q1 2017** |
| GDP Growth Rate (Quarterly) | 2.30% | 2.90% | 3.20% | 3.10% | 1.20% |
| Unemployment Rate (End of Month) | **May: 3.8%** | **April: 3.9%** | **March: 4.1%** | **February: 4.1%** | **January: 4.1%** |

*GDP growth rate is calculated as the percent change from the previous period seasonally adjusted at annual rates. **S&P Sectors were re-named at the end of 2001. The sector Industrials is a combination of the former sectors Capital Goods & Transportation.

Sources: Wall Street Journal, Bloomberg, The Department of Labor, The Bureau of Labor Statistics, The Bureau of Economic Analysis, US Treasury website.

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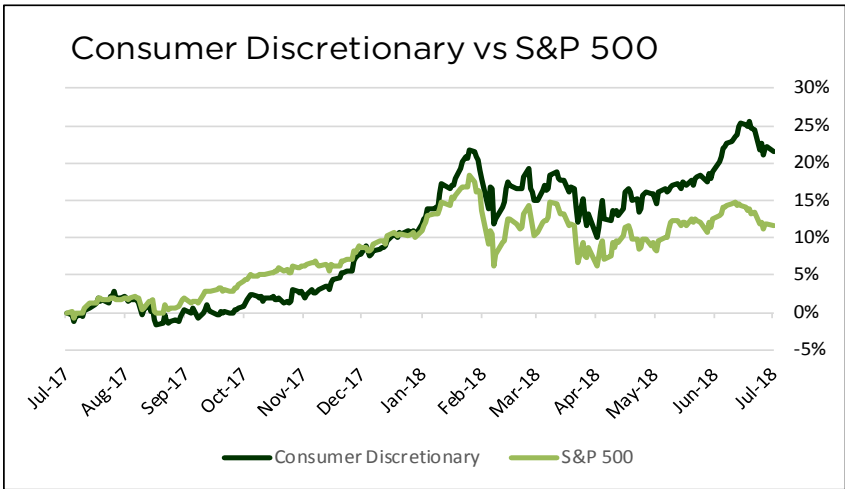
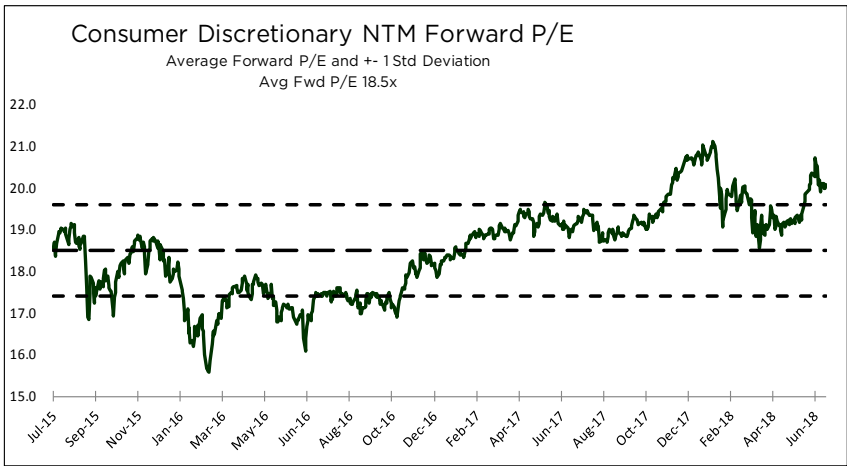
# CONSUMER DISCRETIONARY




Source : Bloomberg

**Sector Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 3.50% | 7.84% | 10.81% | 21.87% |

**S&P 500 Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 0.48% | 2.93% | 1.67% | 12.17% |

| | Company Performance | 1 Month |
|---|---|---|
| **Leaders** | Discovery Inc A | 30.4% |
| | Twenty-First Century Fox B | 29.1% |
| | Discovery Inc C | 29.0% |
| | Twenty-First Century Fox A | 28.9% |
| | Darden Restaurants Inc | 22.5% |
| **Laggards** | H&R Block Inc | -17.0% |
| | Wynn Resorts Ltd | -14.6% |
| | Starbucks Corp | -13.8% |
| | BorgWarner Inc | -11.5% |
| | Norwegian Cruise Line Hold- | -9.7% |

**Consensus FY EPS / P/E**

| Last Year | Current Year | Next Year |
|---|---|---|
| $35.01 | $40.99 | $45.94 |
| 24.9x | 21.2x | 18.9x |

## Sector Update

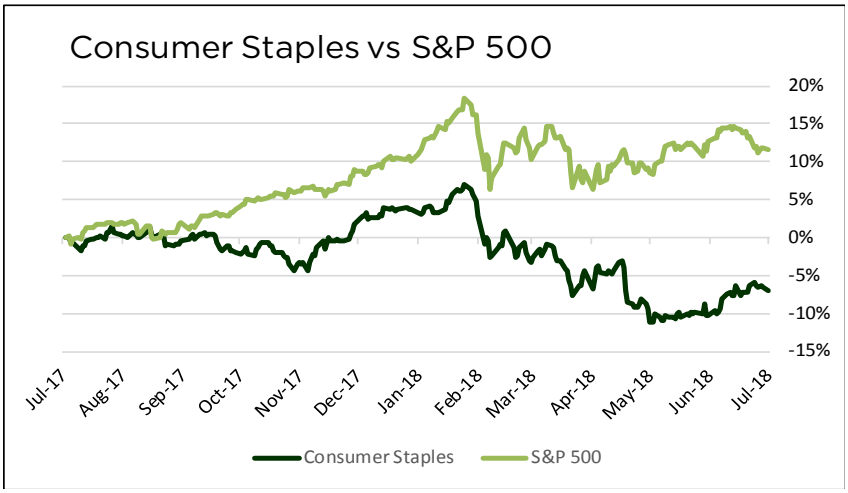
Rising tariffs on steel and aluminum coupled with further actions taken against Chinese imports have increased concerns in the commodities markets influencing a range of consumer discretionary sub-sectors. As tariff and inflation fears influence commodities markets, consumers can expect to see the impact in rising prices over time. The effects of these tariffs are already being seen in the auto sector, and further effects could be seen among technology manufacturers as potential casualties of escalating trade disputes with China.

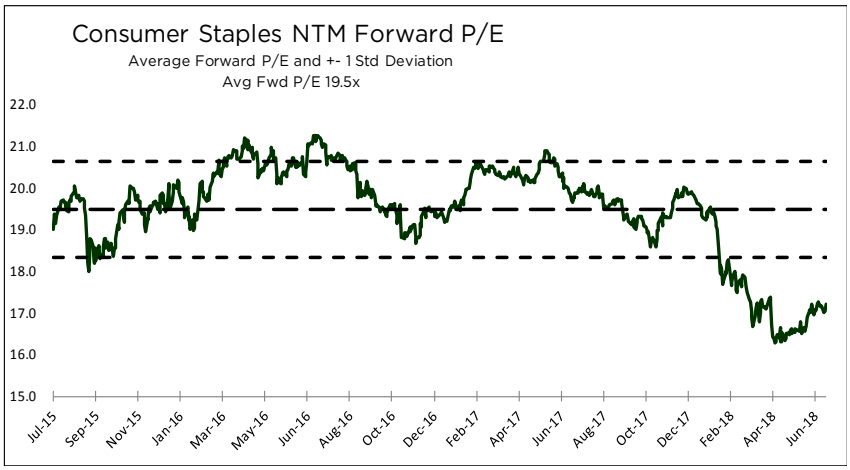
Retail sales continue to climb as the economy is strong and unemployment is low. Presently, tax-cuts, strong job prospects and wage growth are providing support for growth in spending. According to the University of Michigan Consumer Sentiment Index, consumer sentiment was up slightly in June at 98.2, compared to May's reading of 98.0. The initial reading showed consumer sentiment at 99.3, ahead of expectations of a 99.0 reading. The drop in sentiment from the initial to the final reading appears due to concerns over the impact of new tariffs. Consumers fear that tariffs will lead to a rise in inflation and a decrease in economic growth. Despite tariff concerns, confidence in future job prospects and income persisted to drive the consumer sentiment index higher than the reading in May. Concerns over increasing gas prices and higher inflation rates offer a bit of uncertainty in the future. While consumer sentiment is strong right now, these headwinds may present challenges moving forward.

Internet retailers will be processing the Supreme Court decision in South Dakota vs. Wayfair which determined that states can require the collection of sales taxes from out-of-state online retailers without a physical in-state presence. The decision may level the playing field between online e-commerce companies and brick-and-mortar retailers who are already collecting sales tax. A key concern for e-commerce companies centers on the burden involved in determining sales tax rates and collection requirements over the 50 states. In South Dakota, the standard for tax collection was set at a minimum sales level of $100,000 or more than 200 transactions in a 12-month period providing some relief for smaller e-commerce companies.

Supply constraints, coupled with rising prices and mortgage rates have weighed on the housing market recently. Despite these headwinds, consumer appetite for new homes appears to be a strong contributor to solid housing starts growth year-to-date. However, rising costs of materials and limited labor supply, may restrict the rate of growth as the year progresses.

# CONSUMER STAPLES




Source : Bloomberg

**Sector Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 4.15% | -2.34% | -9.93% | -6.66% |

**S&P 500 Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 0.48% | 2.93% | 1.67% | 12.17% |

| | Company Performance | 1 Month |
|---|---|---|
| **Leaders** | Campbell Soup Co | 20.5% |
| | Kroger Co/The | 16.9% |
| | McCormick & Co Inc/MD | 14.9% |
| | Church & Dwight Co Inc | 13.2% |
| | Monster Beverage Corp | 12.0% |
| **Laggards** | Brown-Forman Corp | -13.3% |
| | Estee Lauder Cos Inc/The | -4.5% |
| | Walgreens Boots Alliance | -3.8% |
| | Conagra Brands Inc | -3.6% |
| | Constellation Brands Inc | -1.9% |

**Consensus FY EPS / P/E**

| Last Year | Current Year | Next Year |
|---|---|---|
| $27.21 | $30.04 | $32.22 |
| 19.4x | 17.6x | 16.4x |

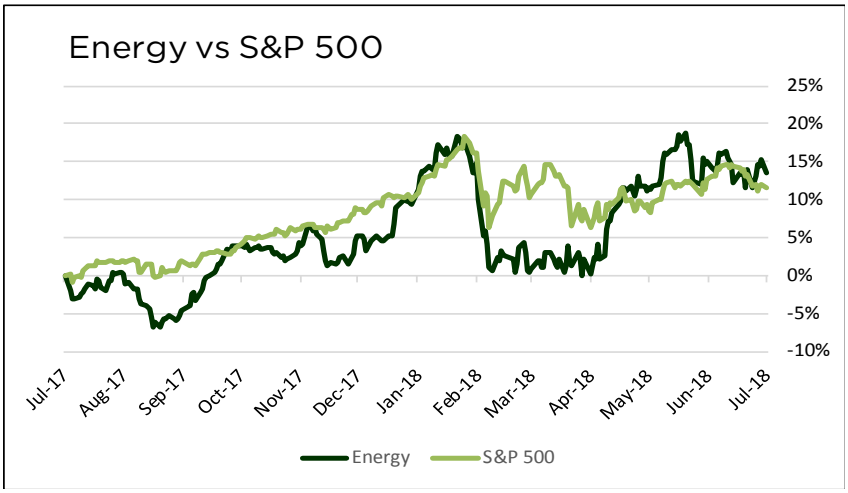
## Sector Update

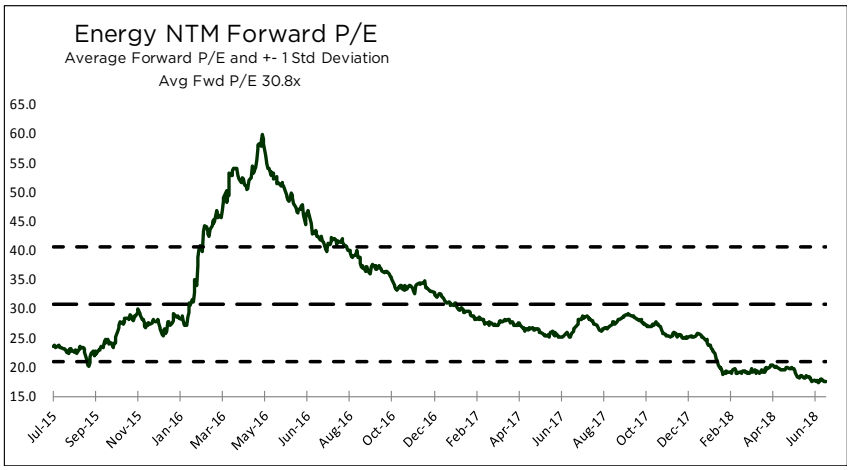
Year to date through June 29, 2018, the S&P 500 consumer staples index, which represented 6.9% of the S&P 500 index, decreased 9.9%. However, the sector did show some strength over the latest month reflecting the more attractive valuations and dividend yields. Soft drinks is the largest of the sector's market value, while brewers is the smallest. The outlook for the soft drink sub-segment reflects earnings and cash flow growth driven by price increases, mix management and new products. Soft drink companies should focus on supporting core brands with marketing spending, managing packaging and mix and introducing new products. Consumers continue to seek healthy options across beverage and food products. Within the spirits segment, the outlook remains favorable supported by demographic and strong consumption trends while tariffs remain an overhang. Consumers continue to trade up to more premium products and companies continue to innovate. Within the beer segment, trends still favor imported beers over domestic. Domestic brewers continue to manage mix, packaging, pricing and innovation.

Packaged food sector consolidation activity intensified. Companies seek to add leading brands in faster growth subsegments as well as better align portfolios to meet consumer demands and retailer pressures. Growth for the group remains challenging given rising margin pressure from higher freight and input costs (gas, metal, packaging, etc.), a strengthening dollar and a competitive retail environment. Cost cutting and productivity savings remain key forces to drive higher margins along with raising prices and managing mix. Emphasis also includes portfolio optimization and e-commerce. US corporate tax reform remains a benefit this year. The question remains whether companies can deliver against 2H expectations. The P/E valuation is nearing historic low levels. Companies with strong brands, leading market share positions, successful innovation, attractive cash flow and experienced management remain preferred investments.

Challenges persist for the Household Products segment including pressures from local product offerings and private label, pricing, input costs and a recent strengthening of the dollar. Consumer confidence presents a favorable tailwind for along with a stronger employment and wage growth and increasing demand from emerging markets. Companies are increasing marketing spending to support core products, market share and innovation. Margins remain pressured due to increasing brand support as well and higher input cost pressures (oil, pulp and resin).

# ENERGY




Source : Bloomberg

**Sector Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 0.57% | 12.69% | 5.27% | 17.50% |

**S&P 500 Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 0.48% | 2.93% | 1.67% | 12.17% |

| | Company Performance | 1 Month |
|---|---|---|
| **Leaders** | Apache Corp | 16.9% |
| | Hess Corp | 10.7% |
| | Cimarex Energy Co | 9.5% |
| | EQT Corp | 7.1% |
| | Kinder Morgan Inc/DE | 5.9% |
| **Laggards** | HollyFrontier Corp | -11.3% |
| | Marathon Petroleum Corp | -11.2% |
| | Halliburton Co | -9.4% |
| | Andeavor | -9.2% |
| | Valero Energy Corp | -8.6% |

**Consensus FY EPS / P/E**

| Last Year | Current Year | Next Year |
|---|---|---|
| $17.98 | $29.12 | $34.15 |
| 31.2x | 19.3x | 16.4x |

## Sector Update

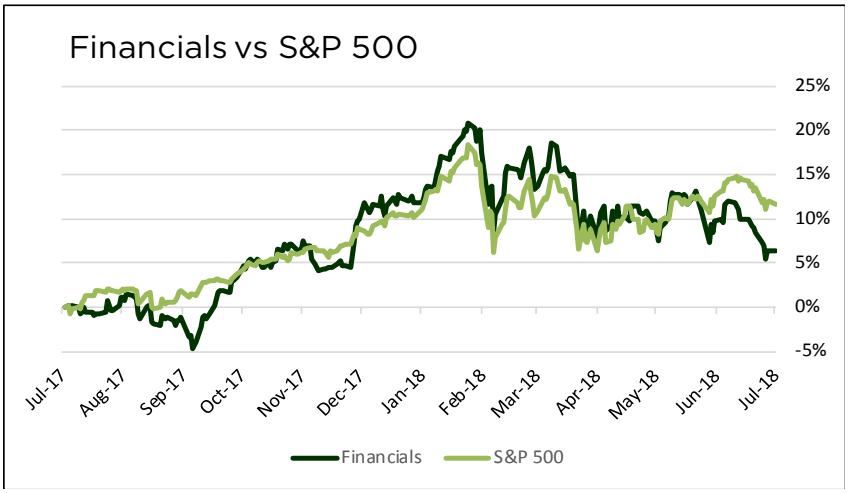
Crude prices rebounded sharply in June with WTI reaching levels near month-end not seen since 2014. Key factors influencing the bounce in prices included news that OPEC production increases would not be as large as expected while production downdrafts were seen across key markets with outages reported in Libya, Venezuela, Iran, Canada, Angola and Kazakhstan. Although more supply could come on the market including possible Saudi production, with soaring prices it appears increasingly possible that President Trump could press for withdrawals from the Strategic Petroleum Reserve in an effort to tamp down prices ahead of the mid-term election.

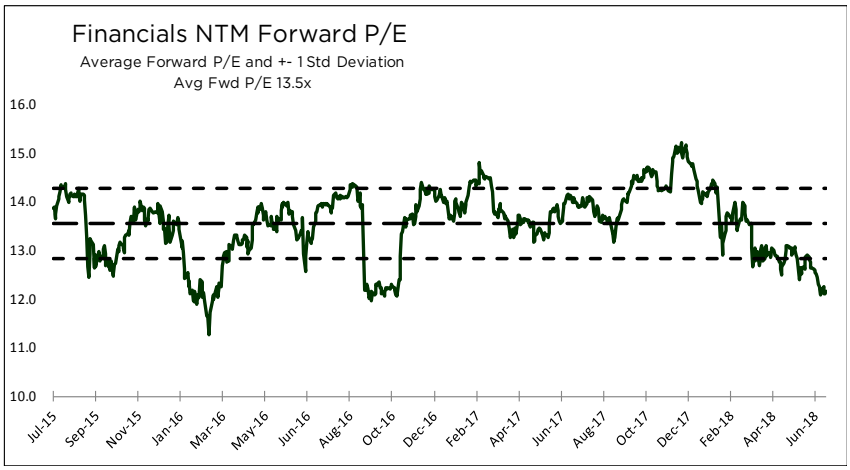
Baker Hughes rig count data continued its uptrend reaching 858 rigs at the end of June versus 756 rigs in the prior year. U.S. crude oil storage at 417 million barrels, is back to January lows, and remains well below the prior year level of 503 million barrels, excluding the Strategic Petroleum Reserve. With the summer driving season in full swing, prospects for further increases in oil and gasoline prices through the summer appear to be weighing on markets.

In its meeting in June, OPEC agreed to raise oil output starting in July, but at levels less than consensus expectations. Despite the efforts to raise oil production, prices have rallied. This could be explained by the increased demand for oil products as demand typically increases in the summer as families drive more. Some producers are also restricted in their abilities to ramp up production, so this increase will lie largely in the hands of a few key producers in Saudi Arabia, Kuwait and the United Arab Emirates. While further increases in production could be seen from non-OPEC members, primarily Russia.

One of the driving factors in heightened oil prices has been an over-compliance to the 2016 agreement to reduce oil production by 1.8 million barrels per day. According to an OPEC spokesman, members reduced their oil production by 1.5 times the agreed upon amount. In response, OPEC set a goal in June to return that compliance to 100%, down from the 150% compliance they saw previously.

# FINANCIALS




Source : Bloomberg

**Sector Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| -2.02% | -3.58% | -4.91% | 7.71% |

**S&P 500 Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 0.48% | 2.93% | 1.67% | 12.17% |

| | Company Performance | 1 Month |
|---|---|---|
| **Leaders** | Assurant Inc | 10.9% |
| | Cboe Global Markets Inc | 6.7% |
| | Jefferies Financial Group | 3.9% |
| | Intercontinental Exchange | 3.8% |
| | S&P Global Inc | 3.2% |
| **Laggards** | Brighthouse Financial Inc | -14.9% |
| | Charles Schwab Corp/The | -8.1% |
| | SVB Financial Group | -7.5% |
| | Raymond James Financial | -7.5% |
| | Affiliated Managers Group | -6.6% |

**Consensus FY EPS / P/E**

| Last Year | Current Year | Next Year |
|---|---|---|
| $28.25 | $34.48 | $38.03 |
| 15.6x | 12.8x | 11.6x |

## Sector Update

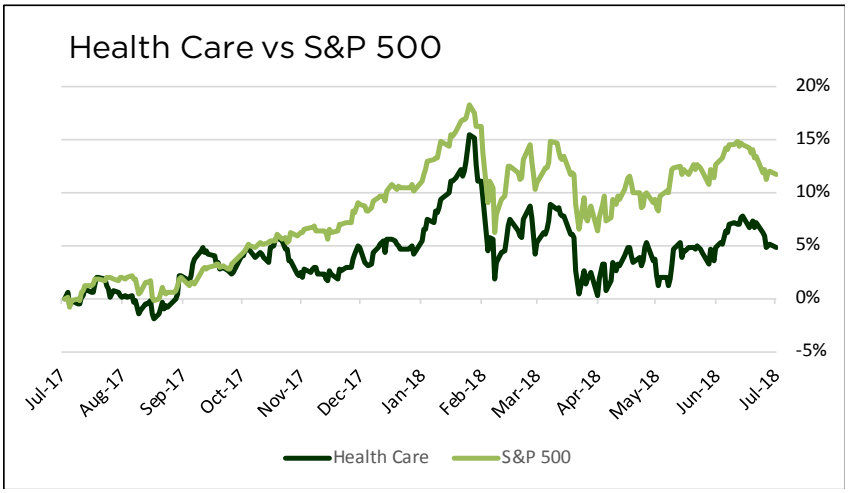
The financial sector continues to lag the broad market on a year-to-date basis. This was true for June as well, as financials declined over 2.0% compared to a modestly positive return for the S&P 500. Among the financials five major sub-sectors, all are in negative territory for the first half of the year. The best relative sub-sector performer were the banks and insurance-related companies was at the opposite of the spectrum on a year-to-date basis.

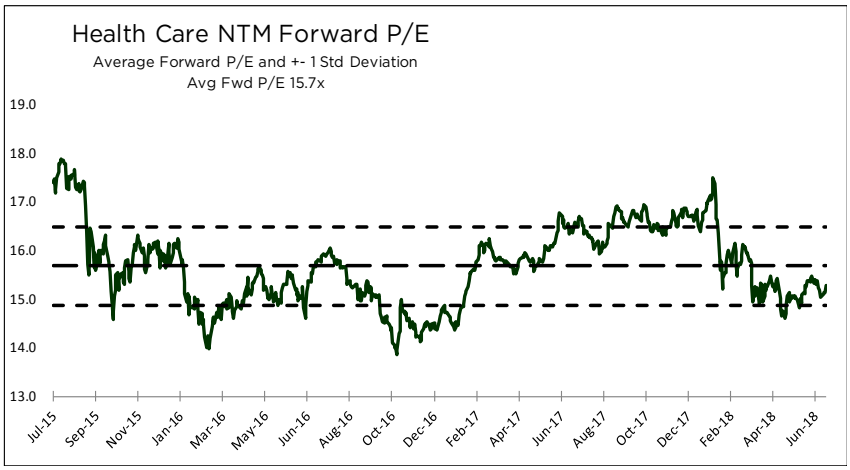
The apparent explanation for this underperformance is tied directly to interest rate movements. During June, the yield curve got flatter as the spread between the US Government two-year and ten-year bonds narrowed. While short-term rates have increased materially over the past year due to Federal Reserve actions, longer-term yields have risen at a much more subdued pace. The impact of a flatter yield curve impacts some companies more than others, it generally is considered a negative for the overall sector.

A significant event in June was the release of the Comprehensive Capital Analysis and Review (CCAR) for 2018. This evaluation period impacts the planned capital actions for the twelve months ending June 30, 2019 for 35 of the nation's largest financial institutions. Given the extremes of the "severely adverse" economic scenario, results were generally encouraging. As a group, the common equity tier one ratio (CET1) declined from 12.3% to 6.3% over the nine-quarter planning horizon outlined in the severely adverse scenario. Among the 35 institutions evaluated, 31 received "no objection" to its capital plans, three received conditional approval and one foreign-controlled institution received an objection to its capital plans due to material weakness in the capital planning process. The group's overall ability to return capital to shareholders generally improved. We feel the 2018 CCAR results demonstrated overall capital strength for major US financial institutions.

At current valuation levels, the financial sector appears to be relatively attractive based on current earnings expectations. A rise in longer-term interest rates could provide a near-term catalyst for the group along with second quarter financial results.

# HEALTH CARE




Source : Bloomberg

**Sector Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 1.51% | 2.66% | 0.99% | 5.33% |

**S&P 500 Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 0.48% | 2.93% | 1.67% | 12.17% |

| | Company Performance | 1 Month |
|---|---|---|
| **Leaders** | Regeneron Pharmaceuticals | 14.9% |
| | Allergan PLC | 10.6% |
| | Vertex Pharmaceuticals | 10.4% |
| | Becton Dickinson and Co | 8.1% |
| | Boston Scientific Corp | 7.6% |
| **Laggards** | Nektar Therapeutics | -39.2% |
| | AbbVie Inc | -6.4% |
| | Cardinal Health Inc | -6.3% |
| | Mylan NV | -6.0% |
| | McKesson Corp | -6.0% |

**Consensus FY EPS / P/E**

| Last Year | Current Year | Next Year |
|---|---|---|
| $47.93 | $61.49 | $66.90 |
| 20.1x | 15.7x | 14.4x |

## Sector Update

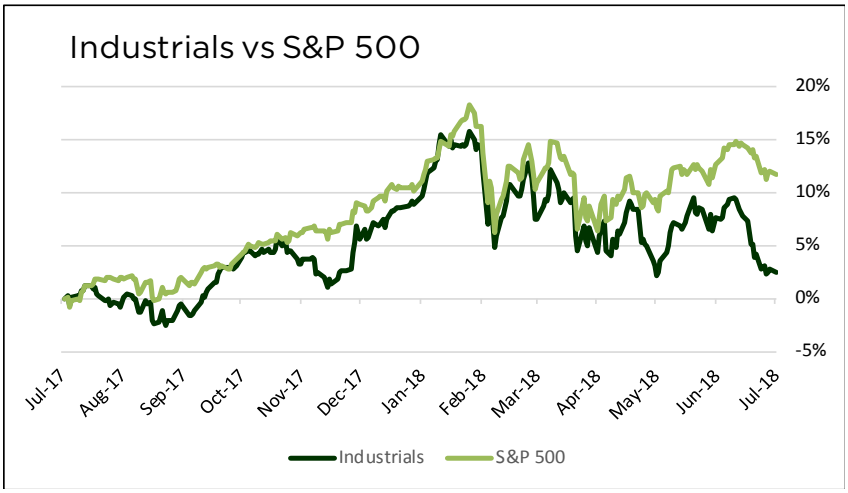
Health care represents ~14.1% weighting among S&P 500 sectors. As depicted in the graphs above, after performing in line with the broad market (S&P 500) into 1Q18, performance lagged early into the 2Q period. Most recently, as market volat1ility has risen along with uncertainty over tariffs, the defensive health care sector has modestly outperformed – rising by 1.5% over the past month versus 0.48% for the S&P 500. Historically, Health Care has been a consistent growth sector tied to aging global demographics, rising wealth and advances in new therapeutics.

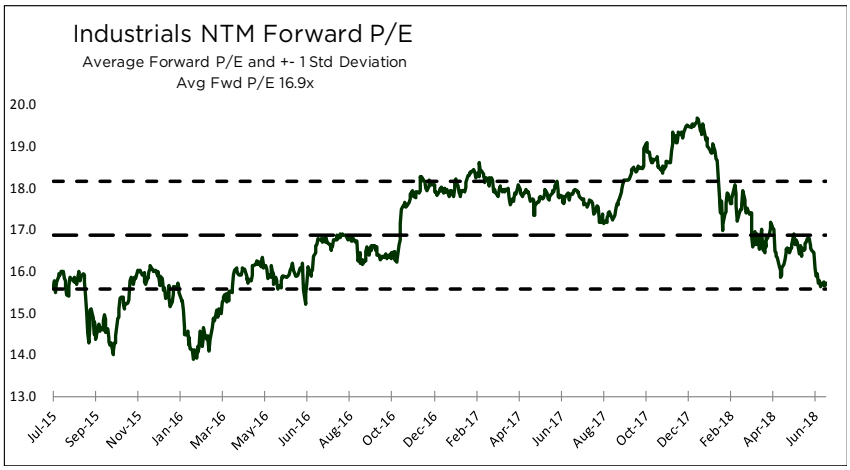
The key, recurring, factor that cycles to the forefront impacting sector performance relates to rising costs and access to health care. The Trump Administration brought increased focus to this issue with their May rollout of a blueprint plan – American Patients First – targeting lower drug prices. Most recently, the announcement by Amazon.com of its acquisition of privately held internet pharmacy provider PillPack Inc. created short term volatility to drug distributors and retail pharmacy providers. Although we anticipate competition in drug distribution will remain intense, we sense that the initial focus for AMZN will be to serve people paying for their medications out-of-pocket – as insurers have long established relationships with existing providers.

Across the health care sector, we continue to see consolidation moves as manufacturers, providers and payors attempt to gain operating efficiency and pricing leverage. With the recent court ruling approving AT&Ts acquisition of Time Warner overcoming federal antitrust objections, prospects for the pending CVS/Aetna and Cigna/Express Scripts mergers has risen. In the meantime, new technologies and therapeutics that advance treatments continue to be welcomed by patients as they come to market. For example, in the biopharma sector we note that Amgen's recently launched new class of migraine therapeutic, Aimovig, has been well received. Initial demand has been solid as Amgen negotiated lower pricing to gain insurer support.

Earnings momentum among large cap biopharma, health insurer and suppliers could be above average in 2018 driven by tax reform – with some companies benefiting from lower tax rates from the 38%+ rate toward 25% this year – supporting share valuations. Over the intermediate and longer term, demographic trends support sustained mid to high single digit growth that could position the sector for investor interest – especially during periods of slower economic growth.

# INDUSTRIALS




Source : Bloomberg

**Sector Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| -3.43% | -3.66% | -5.60% | 3.29% |

**S&P 500 Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 0.48% | 2.93% | 1.67% | 12.17% |

| | Company Performance | 1 Month |
|---|---|---|
| **Leaders** | Equifax Inc | 9.8% |
| | Snap-on Inc | 8.7% |
| | Fortive Corp | 6.1% |
| | IHS Markit Ltd | 4.7% |
| | TransDigm Group Inc | 3.3% |
| **Laggards** | American Airlines Group | -12.8% |
| | Caterpillar Inc | -10.7% |
| | Fastenal Co | -9.6% |
| | FedEx Corp | -8.9% |
| | Parker-Hannifin Corp | -8.8% |

**Consensus FY EPS / P/E**

| Last Year | Current Year | Next Year |
|---|---|---|
| $31.56 | $36.14 | $40.61 |
| 19.1x | 16.7x | 14.8x |

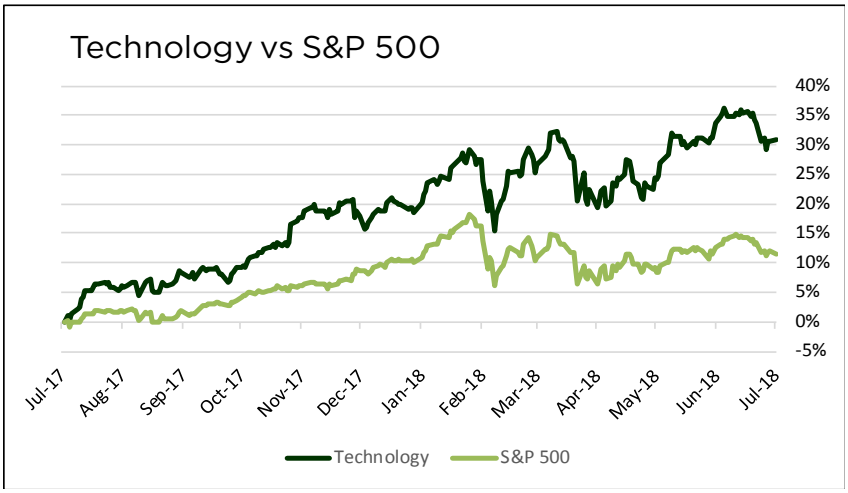
## Sector Update

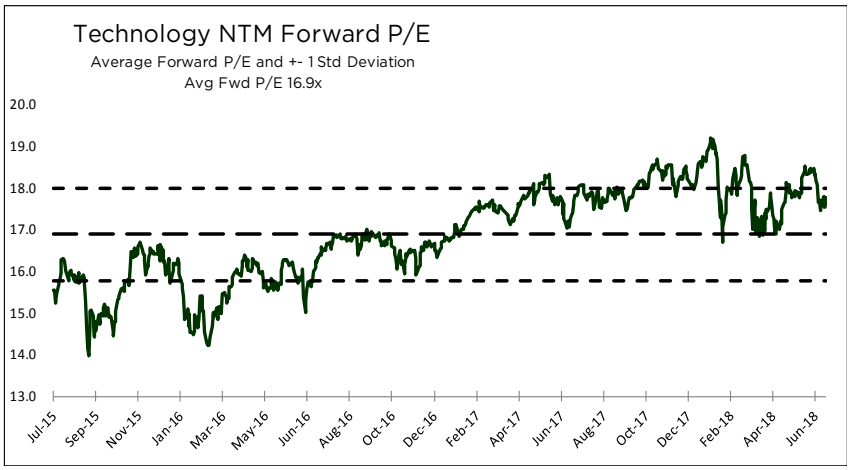
Industrials extended a year of underperformance and were the worst performing sector of the S&P 500 in June. Global trade and tariff tensions continue to weigh on investor sentiment despite a positive corporate earnings outlook for Industrial issues. While underlying fundamentals point to further domestic and international economic expansion, geopolitical strains threaten to temper business confidence and have increased near-term uncertainty for many multinational companies.

The Trump Administration's announced tariffs targeting the next $34 billion of imports from China are set to take effect on July 6, and incorporate 25% price increases on a range of products. China intends to retaliate with penalties of equal rate and scale on goods such as farm and agricultural products, chemicals and autos. While the United States has a higher absolute dollar value of imported goods that can be targeted, China's retribution is not limited to direct trade. Retaliation through business restrictions on US subsidiaries with operations in China or disruptions in the global supply chain could lead to comparable financial consequences. Multinationals involved in farm/agricultural machinery, aerospace & defense, and industrial conglomerates have experienced the most pressure over the last month and YTD, and could be vulnerable in a full-blown trade war.

On the domestic front, the ISM Manufacturing PMI increased to 60.2% in June over 58.7% in May, indicating strong expansion in US manufacturing activity. Demand remains healthy, new orders and reported backlogs are growing while seventeen out of eighteen manufacturing industries reported expansion in June. However, survey respondents also expressed some concerns related to transportation delays, rising input costs and global trade uncertainty. Commodity inflation is still a headwind for the industry, particularly with steel and aluminum representing core raw material costs for many industrials. Still, better pricing actions are expected to aid growth and help offset inflationary pressures through the back half of this year. The narrative could become more positive for those companies able to deliver margin expansion into the 2019 timeframe, particularly if circumstances for domestic and global demand stay healthy.

Time will tell how the escalating tit-for-tat trade war with China and other nations unfold, but in the meantime, investors appear to be taking a more cautious risk-off approach. Any progress on a resolution could shift investor attention away from geopolitics and towards companies poised to benefit from sound fundamental growth.




Source : Bloomberg

**Sector Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| -0.39% | 6.75% | 10.17% | 29.60% |

**S&P 500 Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 0.48% | 2.93% | 1.67% | 12.17% |

| | Company Performance | 1 Month |
|---|---|---|
| **Leaders** | Twitter Inc | 25.9% |
| | NetApp Inc | 14.9% |
| | Alliance Data Systems | 10.6% |
| | Advanced Micro Devices | 9.2% |
| | Motorola Solutions Inc | 8.4% |
| **Laggards** | Red Hat Inc | -17.3% |
| | Lam Research Corp | -12.8% |
| | Intel Corp | -9.9% |
| | KLA-Tencor Corp | -9.4% |
| | Applied Materials Inc | -9.0% |

**Consensus FY EPS / P/E**

| Last Year | Current Year | Next Year |
|---|---|---|
| $52.42 | $65.41 | $72.69 |
| 23.2x | 18.6x | 16.8x |

## Sector Update

The escalating tariff battle between the U.S., Canada, China, the European Union, and Mexico could negatively impact semiconductor companies that rely on these countries, and in particular, China, for their global manufacturing supply chain. Semiconductor companies with a high level of exposure to China include Intel and Qualcomm.

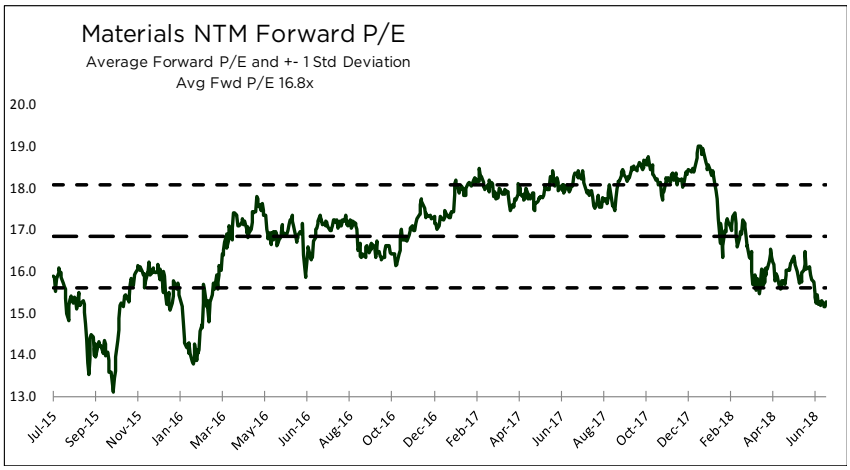
The U.S. plans to implement tariffs on $34 billion of Chinese exports to the U.S., beginning Friday, July 6th and China plans to retaliate with a similar level of increased tariffs on U.S. exports to China. According to China, 60% of the Chinese manufactured goods targeted for tariffs by the U.S. are manufactured for non-Chinese companies, including the U.S. Many goods are manufactured in China for U.S., European and other countries, with these goods slated to serve the Chinese market or to be exported to other countries.

According to a recent news report, the U.S. may refrain from imposing a 25% tariff on autos imported from Europe if the European Union and the U.S. agree to eliminate all tariffs on automobiles. If the EU and the U.S. eliminate auto tariffs, it is possible that other countries may agree to a similar arrangement.

If the U.S. goes ahead with 25% tariffs on automobile imports from the EU, semiconductor manufacturers that serve the auto industry could be negatively impacted. TE Connectivity (TEL) obtained 42% of its Q-2 18 revenue from the automotive sector, Texas Instruments (TXN) obtained 35% of its revenue from this sector, and Analog Devices (ADI) derived 16% of its revenue from this sector.

Software companies typically deliver software updates to their customers over the Internet in digital format, and therefore, should not face potential supply chain disruptions associated with a tariff war. Most leading software companies, such as Adobe Systems, Microsoft, Oracle, and Salesforce.com deliver their software over the Internet to corporations (known as software as a service). These companies may be less impacted by a global tariff war than technology companies in the personal computer, smart phone, and semiconductor sectors that rely on a global supply chain to produce their products.

# MATERIALS


Source : Bloomberg

**Sector Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 0.12% | 2.05% | -4.03% | 7.77% |

**S&P 500 Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 0.48% | 2.93% | 1.67% | 12.17% |

| | Company Performance | 1 Month |
|---|---|---|
| **Leaders** | CF Industries Holdings Inc | 7.9% |
| | Sherwin-Williams Co/The | 7.5% |
| | DowDuPont Inc | 2.8% |
| | PPG Industries Inc | 2.8% |
| | FMC Corp | 2.4% |
| **Laggards** | Packaging Corp of America | -4.9% |
| | Eastman Chemical Co | -4.2% |
| | Ball Corp | -3.8% |
| | Air Products & Chemicals | -3.5% |
| | WestRock Co | -3.2% |

**Consensus FY EPS / P/E**

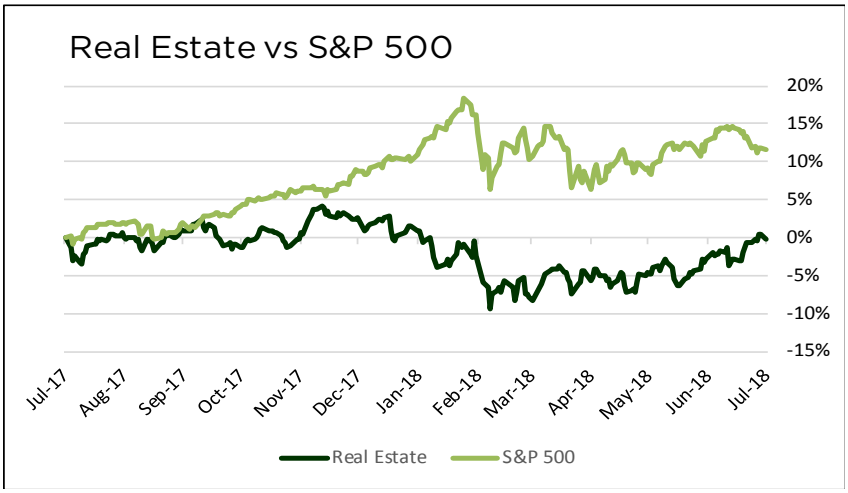
| Last Year | Current Year | Next Year |
|---|---|---|
| $17.82 | $22.82 | $24.70 |
| 20.4x | 15.9x | 14.7x |

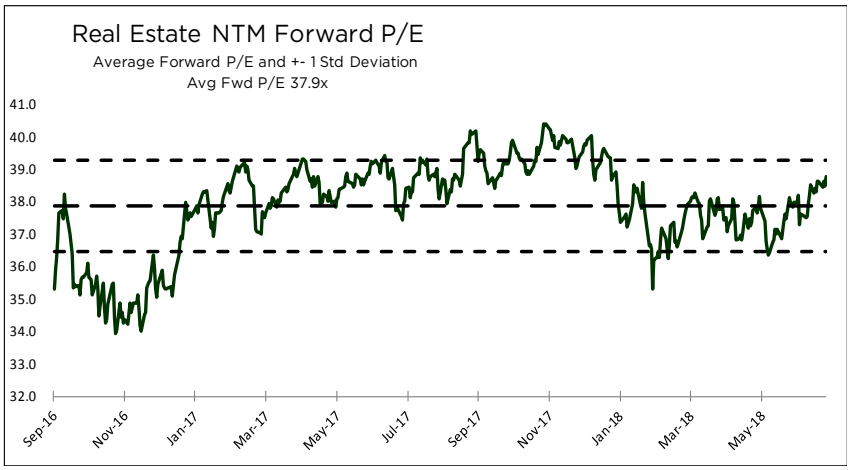
## Sector Update

Year to date through June 29, 2018, the S&P 500 materials index, which represented 2.6% of the S&P 500 index, decreased 4.0%, but reported improved performance in the latest month. There are 11 sub-industry indices in this sector with diversified chemicals representing the largest component. Sales of specialty chemicals should be driven more by end market demand rather than pure price. Major categories of specialty chemicals include water treatment and manufacturing processing chemicals, additives, coatings, pesticides, electronic materials, catalysts, flavors, fragrances, adhesives and sealants. Consolidation among the smaller specialty chemical manufacturers should continue as companies seek to drive top and bottom line growth. The outlook is for improving sales and earnings growth for the chemical companies in 2018 is driven by rising demand and improved pricing. Headwinds include increasing energy costs.

A favorable outlook remains for the construction materials segment supported by strengthening demand. For the next year, the outlook remains favorable for the segment supported by growth in both the private and public sectors. In addition, housing starts should continue their recovery that supports improving demand. Spending on infrastructure should continue and increasing demand should support favorable pricing for aggregates. A continued gradual recovery in the commercial segment in the coming quarters and continued spending on residential buildings should both continue to improve in coming quarters.

A strengthening economy supports a more favorable outlook for the paper packaging segment. The overall outlook for the paper packaging sub-segment reflects expectations for an improving economy, strengthening demand for corrugated packaging and stronger exports. Consolidation within the industry should support a more rational operating environment. Companies in this sub-industry make a range of products including containerboard, corrugated boxes, tubes and cores, and multi-wall sacks. Key factors that impact paper packaging companies include macroeconomic conditions, including the strength of the economy in the U.S. and abroad, industry capacity changes, exchange rates, and global competition. The key driver for demand include the strength of the economy. The primary competitive factors include price, design, quality, product innovation, and service. In addition, larger companies offer a geographic system that can supply a multinational company's global packaging needs.




Source : Bloomberg

**Sector Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 3.88% | 5.13% | -0.96% | 1.45% |

**S&P 500 Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 0.48% | 2.93% | 1.67% | 12.17% |

| | Company Performance | 1 Month |
|---|---|---|
| **Leaders** | Kimco Realty Corp | 9.9% |
| | Welltower Inc | 8.7% |
| | Equinix Inc | 8.3% |
| | HCP Inc | 7.7% |
| | Mid-America Apartment | 7.6% |
| **Laggards** | Host Hotels & Resorts Inc | -2.6% |
| | Weyerhaeuser Co | -2.3% |
| | Equity Residential | -0.5% |
| | Essex Property Trust Inc | 0.0% |
| | GGP Inc | 0.7% |

**Consensus FY EPS / P/E**

| Last Year | Current Year | Next Year |
|---|---|---|
| $4.27 | $5.12 | $5.37 |
| 47.3x | 39.4x | 37.6x |

## Sector Update

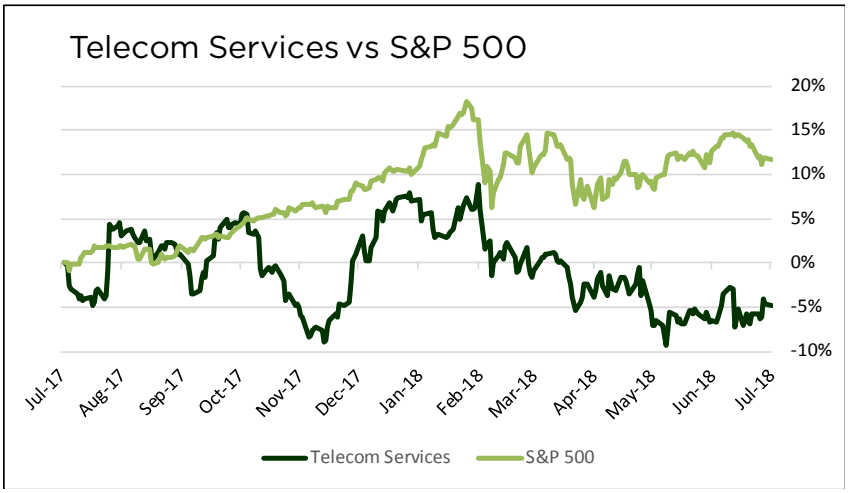
Real Estate was recognized as a distinct sector of the S&P 500 in August 2016 and currently represents ~2.8% weighting of the overall index. As depicted in the graphs above, into 4Q17 and early 2018, the overall REIT group underperformed the broad market (S&P 500) after previously having outperformed dating back to the year 2000. US tax reforms negotiated and approved in the 4Q17, left REITs at a competitive disadvantage as they pay no income tax at the corporate level. Compounding this disadvantage, interest rates ramped into early 2018 – with the 10-year Treasury rising from ~2.46% to recent levels exceeding 2.80%.

More recently, we note that the REIT sector has outperformed rising by 3.9% in the past month and 5.1% over three months – well ahead of the S&P 500's 2.9% gain. This appreciation came through even as the Fed increased the funds rate by 25 bps at its mid-June session (as expected), while expectations for continued steady hikes has been implied by the Fed Governors. That is, historically REITs tend to suffer during the initial period of rising interest rates along with other interest rate proxies. However, after the initial negative psychological reaction, steady returns offered by well positioned REIT subsectors has offered appreciation potential given improving economic conditions and rising inflation. Over the long-term, REITs have achieved consistent growth in net operating income (NOI) in a range of 2.5 – 4.0% that have rewarded investors.

However, of late, REIT industry subsectors have seen varied performance as demand shifts, new capacity is added, secular business trends emerge, and government funded health changes. For example, over the past decade, online purchases by consumers has grown from ~3% of totals to 10% dramatically impacting big box retailers, while growing demand for logistics warehouses. REITs focused on the retailing sector remain highly leveraged and vulnerable to shifting consumer trends and bankruptcies among lessees.

On the flip side, REITs focused on the industrial sector are seeing solid domestic demand and maintain lower leverage enhancing growth prospects and potential investor returns. In a similar fashion, the move to the 'cloud' drives data center demand, while a resilient economy has driven consumer/business demand for lodging. And, health care REITs have rebounded as new groundbreakings for senior care centers has slowed positioning providers to see rising occupancy rates over the intermediate term.

# TELECOMMUNICATION SERVICES



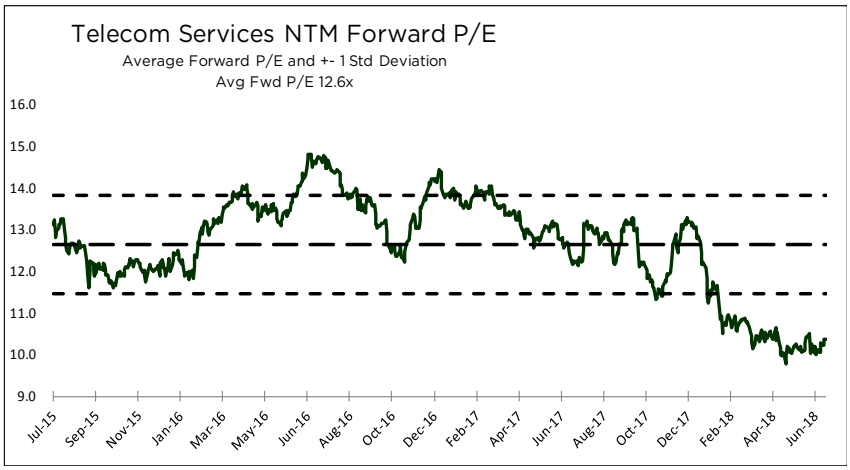

**Sector Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 2.24% | -2.33% | -10.81% | -3.84% |

**S&P 500 Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 0.48% | 2.93% | 1.67% | 12.17% |

| | Company Performance | 1 Month |
|---|---|---|
| **Members** | Verizon Communications | 6% |
| | CenturyLink Inc | 2% |
| | AT&T Inc | -1% |




**Consensus FY EPS / P/E**

| Last Year | Current Year | Next Year |
|---|---|---|
| $11.58 | $14.35 | $14.66 |

Source : Bloomberg

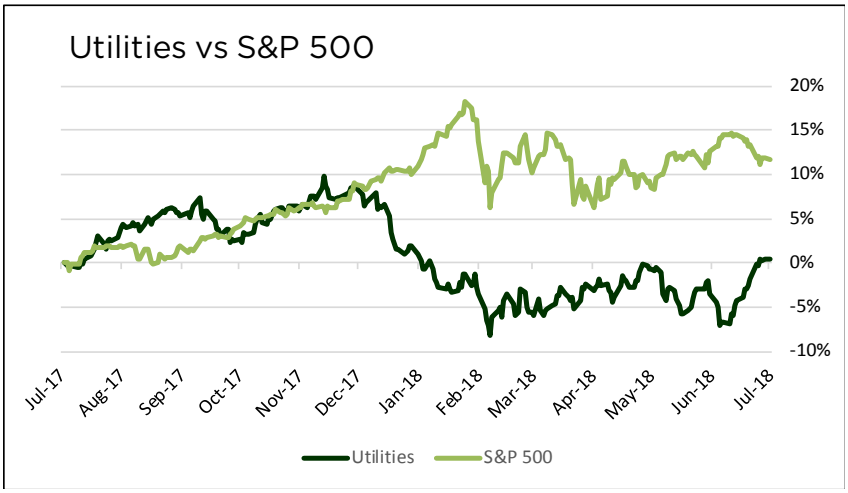
## Sector Update

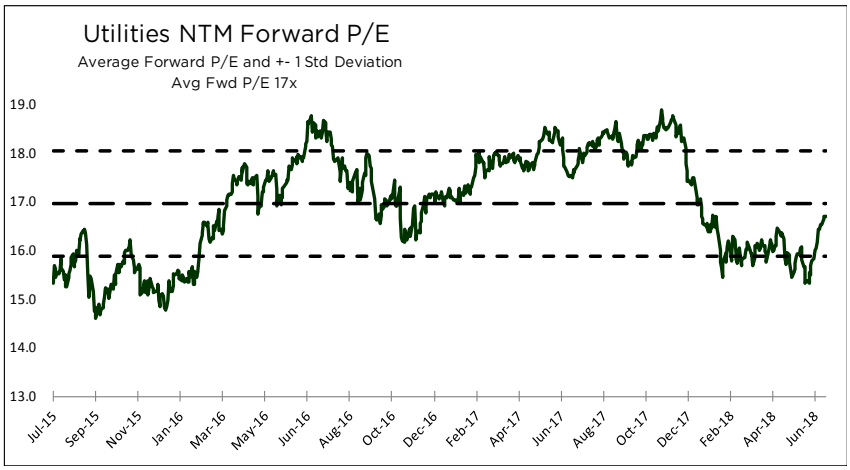
Investors hoped that a potential Sprint/T Mobile merger would reduce potential competition in the U.S. telecommunications market, since the top three carriers, including AT&T, Sprint/T Mobile, Verizon, would control 90% of the market. However, members of the U.S. House of Representatives are concerned that the potential Sprint/T Mobile merger may present a threat to U.S. national security, since Softbank, the majority owner of Sprint, has ties to Huawei, a Chinese telecommunications equipment manufacturer. Consequently, the House members sent a letter to U.S. Treasury Secretary, Steven Mnuchin (he will lead the national security review of the merger), expressing their concern about the merger. If the Sprint/T Mobile merger is blocked by the U.S. government, there is potential risk of a renewed price war in the U.S. telecommunications market. In addition, the U.S. government plans to block China Mobile's potential entry into the U.S. telecommunications market due to national security concerns (the Chinese government has majority control of China Mobile).

Canadian telecommunications companies have a more benign competitive environment than their U.S. peers. The top three Canadian wireless carriers, Bell Canada (BCE), Rogers Communications (RCI), and Telus controlled 90%+ of the Canadian wireless market. In the March quarter, the Canadian wireless carriers grew their service revenue 5-6%, while AT&T and Verizon's wireless service revenue declined 2-3% year-over-year. While there are a number of large, well-funded cable companies and other carriers that compete for residential and business customers in the U.S., there are fewer competitors in the Canadian market. Therefore, Bell Canada and Telus, Canada's two largest carriers, increased their first quarter wireline revenue 3-5%, while At&T and Verizon reported a decline in wireline revenue.

Comcast and Disney continued their takeover battle for 21st Century Fox assets. Disney boosted its offer for 21th Century Fox assets from $52.4 billion (all stock deal) to $70 billion (50% stock/50% cash), above Comcast's cash offer of $65 billion. We suspect that the bidding war for Fox assets may go another few rounds. Disney appears to have the upper hand right now, since the U.S. Department of Justice approved Disney's potential purchase of 21st Century Fox assets provided that Disney agrees to divest itself of Fox's regional sports networks. Fox shareholders will vote on Disney's revised offer on July 27th.

# UTILITIES




Source : Bloomberg

**Sector Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 2.46% | 2.80% | -1.52% | -0.18% |

**S&P 500 Performance**

| 1 Month | 3 Months | YTD | TTM |
|---|---|---|---|
| 0.48% | 2.93% | 1.67% | 12.17% |

| | Company Performance | 1 Month |
|---|---|---|
| **Leaders** | Sempra Energy | 9.0% |
| | Dominion Energy Inc | 6.2% |
| | SCANA Corp | 6.1% |
| | CenterPoint Energy Inc | 6.0% |
| | AES Corp/VA | 5.2% |
| **Laggards** | NRG Energy Inc | -10.3% |
| | PG&E Corp | -1.8% |
| | Evergy Inc | -1.0% |
| | Entergy Corp | -0.1% |
| | NextEra Energy Inc | 0.7% |

**Consensus FY EPS / P/E**

| Last Year | Current Year | Next Year |
|---|---|---|
| $15.56 | $15.51 | $16.35 |
| 16.9x | 17.0x | 16.1x |

## Sector Update

The utilities sector enjoyed a relatively strong June driven by lower longer-term interest rates over the course of the month. The ten-year moved from roughly the 3.00% level to the mid-2.80%s providing a clear catalyst for this interest sensitive sector. Utilities outperformed the S&P 500 by nearly 200 basis points during the month, but still lag the overall market on a year-to-date basis. Selling at 17.0x current year expectations, the utility sector is at a modest premium to the overall market as recent market volatility helped underscore the sector's earnings stability.

The sector's strongest performers in June were driven by company specific events. Sempra Energy indicated they would sell its midstream assets along with its renewable portfolio. These actions have been suggested by activist investors and the announcement met with a positive market reaction.

Dominion Energy and SCANA also were among the sector's better performers. These two companies previously signed a merger agreement offering to exchange each SCANA share for 0.669 shares of Dominion. The South Carolina legislature passed a bill reducing temporarily South Carolina Electric and Gas Company (SCE&G) rates by approximately 15% to lower the impact of the abandoned V. C Summer nuclear construction to the state's electric customers. SCANA reduced its dividend by 80% in response to this action and subsequently filed a lawsuit in federal court challenging the law on constitutional grounds. While considerable near-term uncertainty surrounds the merger, the dividend reduction helps preserve the financial flexibility to allow the merger to move forward. SCANA shareholders are scheduled to vote on the deal on July 31st. Dominion Energy management indicated the legislation could directly impact the proposed rebates and rate adjustments for South Carolina customers proposed in the original merger offer. Stay tuned for further developments on this one!

| Date | Release | For | Consensus | Prior |
|---|---|---|---|---|
| 2-Jul | ISM Index | Jun | 58.5 | 58.7 |
| 2-Jul | Construction Spending | May | 0.60% | 0.90% |
| 3-Jul | Factory Orders | May | -0.20% | -0.80% |
| 3-Jul | Auto Sales | Jun | NA | 3.90M |
| 3-Jul | Truck Sales | Jun | NA | 9.09M |
| 5-Jul | MBA Mortgage Applications Index | 30-Jun | NA | -4.90% |
| 5-Jul | ADP Employment Change | Jun | 180K | 178K |
| 5-Jul | Initial Claims | 30-Jun | 225K | 227K |
| 5-Jul | Continuing Claims | 23-Jun | NA | 1705K |
| 5-Jul | ISM Services | Jun | 58.3 | 58.6 |
| 5-Jul | Natural Gas Inventories | 30-Jun | NA | +66 bcf |
| 5-Jul | Crude Inventories | 30-Jun | NA | -9.9M |
| 5-Jul | FOMC Minutes | Jun | NA | NA |
| 6-Jul | Nonfarm Payrolls | Jun | 195K | 223K |
| 6-Jul | Nonfarm Private Payrolls | Jun | 192K | 218K |
| 6-Jul | Unemployment Rate | Jun | 3.80% | 3.80% |
| 6-Jul | Avg. Hourly Earnings | Jun | 0.30% | 0.30% |
| 6-Jul | Average Workweek | Jun | 34.5 | 34.5 |
| 6-Jul | Trade Balance | May | -$43.6B | -$46.2B |
| 9-Jul | Consumer Credit | May | NA | $9.3B |
| 10-Jul | NFIB Small Business Optimism Index | June | NA | 107.8 |
| 10-Jul | JOLTS - Job Openings | June | NA | 6.698M |
| 11-Jul | MBA Mortgage Applications Index | 7-Jul | NA | NA |
| 11-Jul | Core PPI | Jun | NA | 0.30% |
| 11-Jul | PPI | Jun | NA | 0.50% |
| 11-Jul | Wholesale Inventories | May | NA | 0.10% |
| 11-Jul | Crude Inventories | 7-Jul | NA | NA |
| 12-Jul | CPI | Jun | NA | 0.20% |
| 12-Jul | Core CPI | Jun | NA | 0.20% |
| 12-Jul | Initial Claims | 7-Jul | NA | NA |
| 12-Jul | Continuing Claims | 30-Jun | NA | NA |
| 12-Jul | Natural Gas Inventories | 7-Jul | NA | NA |
| 12-Jul | Treasury Budget | Jun | NA | -$90.2B |
| 13-Jul | Export Prices ex-ag. | Jun | NA | 0.50% |
| 13-Jul | Import Prices ex-oil | Jun | NA | 0.20% |
| 13-Jul | Univ. of Mich Consumer Sentiment - Prelim | Jul | NA | NA |
| 16-Jul | Retail Sales | Jun | NA | 0.80% |
| 16-Jul | Retail Sales ex-auto | Jun | NA | 0.90% |
| 16-Jul | Empire Manufacturing | Jul | NA | 25 |
| 16-Jul | Business Inventories | May | NA | 0.30% |
| 17-Jul | Industrial Production | Jun | NA | -0.10% |
| 17-Jul | Capacity Utilization | Jun | NA | 77.90% |
| 17-Jul | NAHB Housing Market Index | Jul | NA | 68 |
| 17-Jul | Net Long-Term TIC Flows | May | NA | $93.9B |

Source: Briefing.com

| | | | | |
|---|---|---|---|---|
| 18-Jul | MBA Mortgage Applications Index | 14-Jul | NA | NA |
| 18-Jul | Housing Starts | Jun | NA | 1350K |
| 18-Jul | Building Permits | Jun | NA | 1301K |
| 18-Jul | Crude Inventories | 14-Jul | NA | NA |
| 18-Jul | Beige Book | Jun | NA | 128 |
| 19-Jul | Initial Claims | 14-Jul | NA | NA |
| 19-Jul | Continuing Claims | 7-Jul | NA | -1.70% |
| 19-Jul | Philadelphia Fed | Jul | NA | 0.90% |
| 19-Jul | Leading Indicators | Jun | NA | -$68.2B |
| 19-Jul | Natural Gas Inventories | 14-Jul | NA | 0.00% |
| 23-Jul | Existing Home Sales | Jun | NA | -$128.2B |
| 24-Jul | FHFA Housing Price Index | May | NA | -1.30% |
| 25-Jul | MBA Mortgage Applications Index | 21-Jul | NA | NA |
| 25-Jul | New Home Sales | Jun | NA | 2.20% |
| 25-Jul | Crude Inventories | 21-Jul | NA | 1.90% |
| 26-Jul | Adv. International Trade in Goods | Jun | NA | NA |
| 26-Jul | Durable Goods –ex transportation | Jun | NA | NA |
| 26-Jul | Durable Orders | Jun | NA | NA |
| 26-Jul | Initial Claims | 21-Jul | NA | 0.30% |
| 26-Jul | Continuing Claims | 14-Jul | NA | 0.60% |
| 26-Jul | Natural Gas Inventories | 21-Jul | NA | 0.20% |
| 27-Jul | GDP-Adv. | Q2 | NA | 0.20% |
| 27-Jul | GDP Deflator | Q2 | NA | 62.7 |
| 27-Jul | Michigan Sentiment - Final | Jul | NA | NA |
| 30-Jul | Pending Home Sales | Jun | NA | |

Source: Briefing.com

## Disclosures

This information has been compiled from various sources we believe to be reliable, however, there is no guarantee of its accuracy or completeness. Any opinion expressed herein is based upon our interpretation of the information from such source. This information is not furnished in connection with a sale or offer to sell securities or in connection with the solicitation of an offer to buy securities. Our firm, or its offices or members of their families, may at times, have a long or short position in the securities mentioned herein and may make purchases or sales of these securities while this memorandum is in circulation.

**Past performance is not indicative of future results.**

An index is not available for direct investment; therefore, its performance does not reflect the expenses, fees and taxes generally paid with the active management of an actual portfolio.

Sectors and sector components defined by Standard & Poor's GICS Level 1 index. For the list of all holdings in GICS Level 1 index sectors, contact your Davenport Financial Advisor.

**Leaders:** Represent top five best stock price performance in the most recent calendar month within their respective GICS Level 1 Sector

**Laggards:** Represent top five worst stock price performance in the most recent calendar month within their respective GICS Level 1 Sector

**Members:** The GICS Level 1 Telecommunication Services sector has only three component companies. This sector will not include "Leaders and Laggards", but will show all three members and their price performance over the previous calendar month.

**S&P 500:** The S&P 500 Index is comprised of 500 U. S. stocks and is an indicator of the performance of the overall U.S. stock market.

**Dow Jones Industrials:** The Dow Jones Industrial Average is an index of 30 "blue chip" stocks of U.S. "industrial" companies.

**NASDAQ Composite:** The Nasdaq-100 Index is a "modified capitalization-weighted" index designed to track the performance of a market consisting of the 100 largest and most actively traded non-financial domestic and international securities listed on The Nasdaq Stock Market, based on market capitalization.

**Russell 2000:** The Russell 2000® Index is a capitalization-weighted index designed to measure the performance of a market consisting of the 2,000 smallest publicly traded U.S. companies (in terms of market capitalization) that are included in the Russell 3000® Index.

**FTSE 100:** The FTSE 100 is an index of the leading shares on the London Stock Exchange. Shanghai Composite: The SSE Composite Index is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

**Nikkei Stock Average:** Nikkei is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index comprised of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange. The Nikkei is equivalent to the Dow Jones Industrial Average Index in the United States.

**Stoxx Europe 600:** The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

**MSCI Emerging Markets:** The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. (MSCI Website).

**MSCI Emerging Markets Small Cap:** The MSCI Emerging Markets Small Cap Index includes small cap representation across 23 Emerging Markets countries. With 1,889 constituents, the index covers approximately 14% of the free float-adjusted market capitalization in each country. The small cap segment tends to capture more local economic and sector characteristics relative to larger Emerging Markets capitalization segments.

**US Dollar Index (USDX, DXY):** An index (or measure) of the value of the United States dollar relative to a basket of currencies, often referred to as a basket of US trade partners' currencies.

**VIX:** The ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

**Shanghai Composite (SSE Index):** The Shanghai Composite Index, also known as the SSE Index is a stock market index of all stock (A shares and B shares) that are traded at the Shanghai Stock Exchange.

**Certification:** As the primary authors of this report, we hereby certify that the views and opinions expressed herein accurately reflect our personal views and opinions about the principal subject(s) of this report. Further, I hereby certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or personal views expressed herein.

Please contact your Davenport Financial Advisor for more information.

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