Market Commentary

DAVENPORT & COMPANY
EQUITY RESEARCH

June 2018

With the May wind down of first quarter earnings season, some wonder if peak earnings growth for the year is in the rear view mirror leaving investors to refocus primarily on the interest rate environment as the key driver for stocks through summer 2018 before mid-term elections come to the forefront into the fall. If so, will stocks follow bond prices lower as they did in late May given the market's interest rate outlook? Time will tell how markets react to interest rate, economic, and geopolitical factors. We continue to view the US economy as being in the latter stage of a late-cycle business environment pointing to rising inflation, tightening Fed interest rate policy, and heightened market volatility. No recession appears on the horizon at this time, while tax reform driven corporate earnings are expected to rise by over 18% in 2018 followed by further double digit gains forecast into 2019.

Volatility (VIX), despite a temporary March uptick, has continued its generally downward trend and spent most of May below the 15 level. For the full month, equity market performance was quite good with the Dow Jones Industrial Average up 1.1%, the S&P 500 index up 2.2%, and the smaller cap weighted Russell 2000 up a very strong 6.0%.

S&P 500 performance by sector during May was led by stocks in the information technology sector up a strong 7.1% followed by industrials which advanced 2.7%. The weakest performance in the month was posted by the telecom services sector which dropped by 2.3% followed by consumer staples down 1.8%. For the full year, the information technology sector was the best performer with a 26.5% increase followed by financials up 16.9% and energy up 16.5, while consumer staples stocks have lagged the most with a yearly drop of 12.7%.

First quarter corporate earnings were quite strong with average earnings rising by about 26% - running 7% above consensus expectations. Although the December 2017 tax cut is estimated to have added 7.5% upside to 1Q18 EPS, we note that revenues advanced by ~8.4% with core EPS excluding the benefits of tax reform rising by over 18%. Strongest gains were reported by the Energy sector - up ~80% tied to the rebound in oil prices - while the Tech sector saw broad based growth of ~32% in EPS. On the flip side, the Consumer Staples and Telecom sectors experienced EPS gains of 13-14% much of which was driven by lower tax rates with core operations delivering disappointing low single digit gains.

Mortgage rates reached a seven year high in mid-May which adds to questions around housing affordability given sustained increases in home prices. The housing backdrop, although generally favorable, did provide other mixed signals with housing starts reported in May for the April period, decelerating 3.7% while permits slipped 1.8% month-to-month. Commenting on the real estate market backdrop, Minneapolis Fed President Kashkari commented that the Federal Reserve is watching asset prices closely, but sees no sign of a housing bubble specifically indicating "We don't think there is a new housing bubble the way there was in 2006."

Investors will await release of minutes from the next FOMC session in mid-June that could offer additional clues on interest rate policy. Fed officials currently target two additional 25 bps rate hikes to the funds rate from the 1.50-1.75% level to 2.00-2.25% in 2018 - with rate hikes widely expected at the June 13th and September 26th FOMC sessions. Markets however recognize that the US economy is growing above trend, inflation is on the rise, while the Fed is in tightening mode leading some to anticipate a third additional 25 bps funds rate hike (odds at 42%) at the December 19th FOMC session.

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:	5/31/2018	12/29/2017	% Change YTD	4/30/2018	% Change (Monthly)
S&P Composite	2,705.27	2,673.61	1.18%	2,648.05	2.16%
Dow Jones Industrials	24,415.84	24,719.22	-1.23%	24,163.15	1.05%
NASDAQ Composite	7,442.12	6,903.39	7.80%	7,066.27	5.32%
Russell 2000	1,633.61	1,535.51	6.39%	1,541.88	5.95%
FTSE 100	7,678.20	7,687.77	-0.12%	7,509.30	2.25%
Shanghai Composite	3,095.47	3,307.17	-6.40%	3,082.23	0.43%
Nikkei Stock Average	22,201.82	22,764.94	-2.47%	22,467.87	-1.18%
Stoxx Europe 600	383.06	389.18	-1.57%	385.32	-0.59%
MSCI Emerging Markets	1,120.71	1,158.45	-3.26%	1,164.43	-3.75%
MSCI Emerging Markets Small Cap	1,163.74	1,195.44	-2.65%	1,191.74	-2.35%

Performance of S&P 500 by Industry:	% of Index as of 05/31/18	1 Month	3 Month	Year to Date	12 Months
Consumer Discretionary	12.87%	1.87%	1.62%	7.06%	16.17%
Consumer Staples	6.69%	-1.79%	-7.46%	-13.51%	-12.65%
Energy	6.26%	2.53%	13.79%	4.68%	16.52%
Financials	14.20%	-1.12%	-5.98%	-2.95%	16.87%
Health Care	13.92%	0.02%	-2.10%	-0.51%	8.42%
Industrials	9.91%	2.69%	-3.00%	-2.25%	8.25%
Information Technology	25.98%	7.13%	2.94%	10.60%	26.54%
Materials	2.84%	1.83%	-2.60%	-4.15%	9.32%
Telecommunication Services	1.79%	-2.27%	-5.54%	-12.77%	-8.75%
Utilities	2.80%	-1.69%	3.75%	-3.89%	-5.41%
Real Estate	2.74%	1.97%	4.50%	-4.66%	-0.97%
S&P 500 (Absolute performance)	100.0%	2.16%	-0.32%	1.18%	12.17%

Interest Rates:	5/31/2018	12/29/2017	YTD Change (Basis Points)	4/30/2018	% Change (Monthly)
Fed Funds Effective Rate	1.70%	1.33%	0.37	1.69%	0.59%
Prime Rate	4.75%	4.50%	0.25	4.75%	0.00%
Three Month Treasury Bill	1.90%	1.45%	0.45	1.84%	3.28%
Ten Year Treasury	2.86%	2.41%	0.45	2.95%	-3.20%
Spread - 10 Year vs 3 Month	0.95%	0.96%	-0.00	1.11%	-13.97%

Foreign Currencies:	5/31/2018	12/29/2017	% Change YTD	4/30/2018	% Change (Monthly)
Brazil Real (in US dollars)	0.27	0.30	-11.2%	0.29	-6.0%
British Pound (in US dollars)	1.33	1.35	-1.6%	1.38	-3.4%
Canadian Dollar (in US dollars)	0.77	0.80	-3.0%	0.78	-0.9%
Chinese Yuan (per US dollar)	6.41	6.51	-1.5%	6.33	1.3%
Euro (in US dollars)	1.17	1.20	-2.6%	1.21	-3.2%
Japanese Yen (per US dollar)	108.82	112.69	-3.4%	109.34	-0.5%

Commodity Prices:	5/31/2018	12/29/2017	% Change YTD	4/30/2018	% Change (Monthly)
CRB (Commodity) Index	446.27	432.34	3.2%	445.10	0.3%
Gold (Comex spot per troy oz.)	1298.52	1303.05	-0.3%	1315.35	-1.3%
Oil (West Texas int. crude)	67.04	60.42	11.0%	68.57	-2.2%
Aluminum (LME spot per metric ton)	2289.25	2256.00	1.5%	2256.50	1.5%
Natural Gas (Futures 10,000 MMBtu)	2.95	2.95	-0.0%	2.76	6.8%

Economic Indicators:	4/30/2018	12/31/2017	% Change YTD	3/31/2018	% Change (Monthly)
Consumer Price Index	250.0	247.9	0.8%	249.5	0.2%
Producer Price Index	202.3	201.1	0.6%	202.5	-0.1%
	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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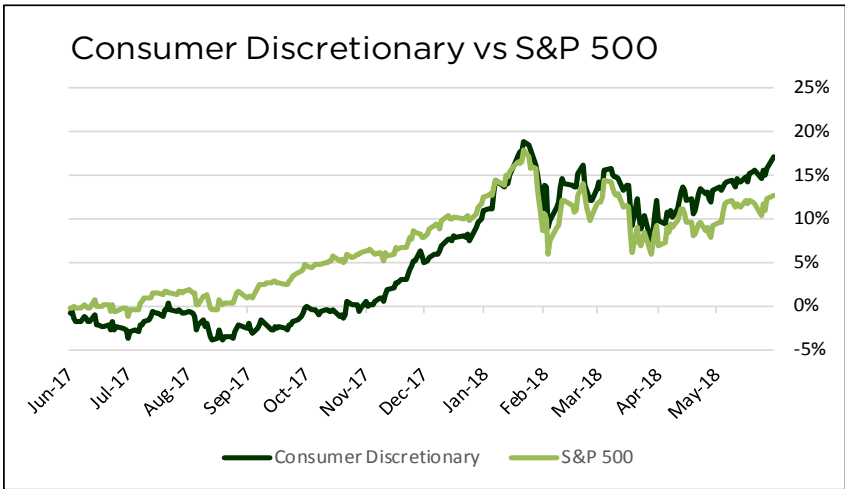
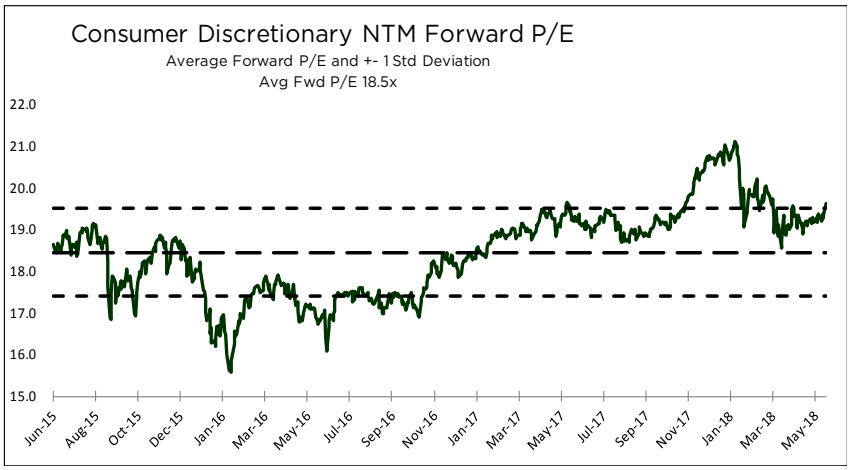
CONSUMER DISCRETIONARY





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
1.87%	1.62%	7.06%	16.17%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
2.16%	-0.32%	1.18%	12.17%

	Company Performance	1 Month
Leaders	TripAdvisor Inc	39.3%
	Tiffany & Co	27.2%
	Foot Locker Inc	25.3%
	Under Armour Inc	23.3%
	Ralph Lauren Corp	22.5%
Laggards	Tapestry Inc	-18.7%
	Michael Kors Holdings Ltd	-16.1%
	Newell Brands Inc	-14.7%
	Dollar Tree Inc	-13.9%
	DISH Network Corp	-11.9%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$35.01	$41.58	$46.46
24.0x	20.2x	18.1x

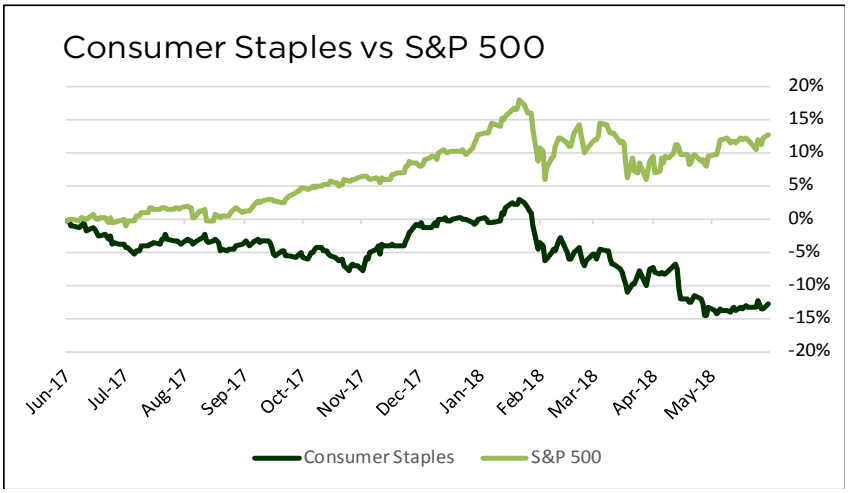
Sector Update

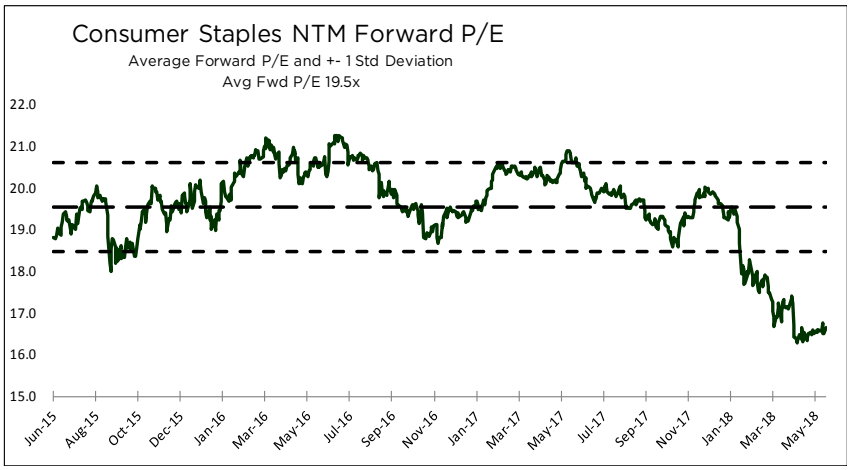
Consumer confidence continues to benefit from a generally favorable jobs and income backdrop that has supported consumer discretionary spending. However, there are a few clouds on the horizon including unemployment levels which are approaching historic lows. Potential labor supply headwinds could present the possibility for further growth in wage inflation that could negatively impact labor intensive segments of the consumer discretionary sector.

The retailing sector is coming off a strong holiday shopping period with many competitors embracing omnichannel efforts in order to mitigate the encroachments from pure e-commerce rivals. Combining retail and digital solutions in an environment of soft mall traffic has been a key strategy to mitigate what some have described as the "retail apocalypse." Areas of relative strength continue to be seen in categories such as home improvement where e-commerce penetration remains relatively low given product attributes including difficulty of shipping bulky commodity items such as lumber and mulch.

With rising prices in many key commodity inputs, we are seeing heightened inflation concerns across the sector, particularly so among automobile and truck manufacturers. Steel and aluminum have both seen notable price increases over the past year and represent about a third of manufacturer commodity costs in the auto manufacturing sector. Already facing this commodity headwind, the specter of tariffs and trade wars have added to recent commodity inflation concerns.

Rising home prices in tandem with rising mortgage rates have pressured home affordability and weighed on the outlook around the housing sector. The repair and remodel space appears to be weathering the environment particularly well as homeowners have looked favorably at housing price gains supporting reinvestment in homes.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
-1.79%	-7.46%	-13.51%	-12.65%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
2.16%	-0.32%	1.18%	12.17%

	Company Performance	1 Month
Leaders	Kellogg Co	9.3%
	Sysco Corp	4.0%
	Clorox Co/The	3.1%
	Kraft Heinz Co/The	2.0%
	Church & Dwight Co Inc	1.6%
Laggards	Coty Inc	-23.6%
	Campbell Soup Co	-17.5%
	Molson Coors Brewing Co	-13.5%
	Monster Beverage Corp	-7.0%
	Walmart Inc	-6.7%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$27.21	$29.63	$31.84
18.7x	17.1x	16.0x

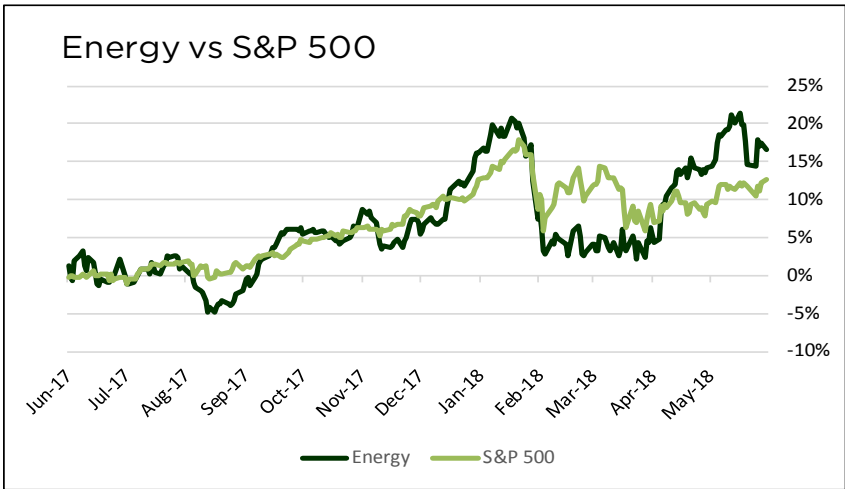
Sector Update

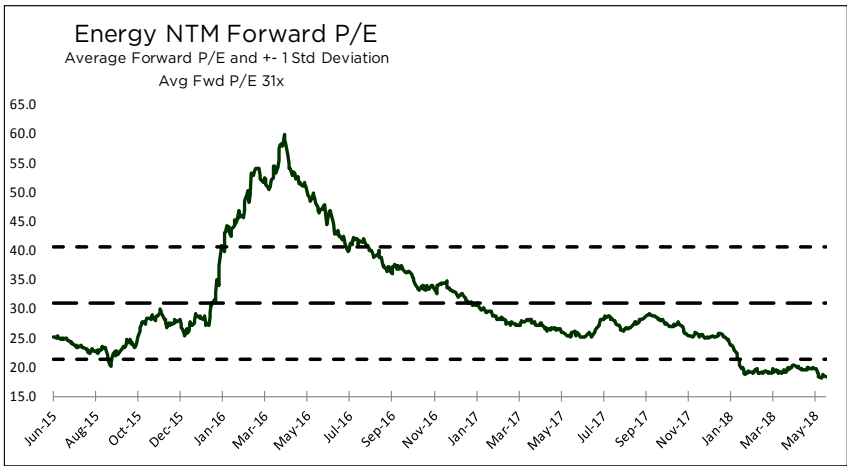
Year-to-date, the Packaged Food Sector has underperformed the overall market on pressure from continued market rotation away from an investment in defensive and attractive dividend stocks, the higher yield for the 10-year treasury bond and increased concerns for 2H margins that outweigh positive trends toward higher wages and employment. The Packaged Food companies face rising input costs (gas, metal, packaging, etc.), increasing transportation and logistic costs and retailer pressures. The P/E valuation for the group is nearing historic low levels and the focus remains on whether these companies can deliver against 2H expectations by successfully raising prices to offset near-term pressures. Companies with strong brands with leading market share positions, successful innovation, attractive cash flow generation and experienced management teams remain preferred investments.

Conversations and actions regarding trade tariffs with the U. S. and China are creating volatility in the grain market as well as for input cost outlooks (grains, packaging, etc) for companies. Farmers are moving forward with crop planting intentions in the US as trade conversations continue. As of May 20th according to the USDA, farmers had planted 81% of the US corn crop, 56% of the US soybean crop and 36% of the US sorghum crop. With total U.S. corn supply falling faster than use, 2018/19 U.S. ending stock projections are down vs. last year according to the USDA. Global soybean production is projected higher mostly due to recovery from the drought in Argentina. U.S. soybean ending stocks for 2018/19 are projected down vs. the prior year. China is a large importer of grains and especially soybeans from the US. Beijing plans on rolling out gasoline known as E-10 (contains 10% ethanol) across its market by 2020 increasing ethanol demand.

Several issues have weighed on the valuation of tobacco company stock prices including the FDA's review of the level of nicotine in cigarettes, the regulation of flavors in tobacco products, and the potential approval of new products (ie non-combustible, e-cigarettes, etc). We expect the tobacco industry to be very engaged in future discussions with the FDA. In addition, the companies continue to invest behind non-combustible, reduced risk products as well as support their core combustible cigarette brands. The overall macro environment remains favorable for the domestic cigarette market with low unemployment, high consumer confidence levels, positive housing starts and higher wages. Companies continue to monitor potential state excise tax increases, c-store trends and gas prices. The companies remain committed to returning value to shareholders through supporting dividends and repurchasing shares.

ENERGY





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
2.53%	13.79%	4.68%	16.52%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
2.16%	-0.32%	1.18%	12.17%

	Company Performance	1 Month
Leaders	Marathon Oil Corp	17.4%
	Devon Energy Corp	14.4%
	Range Resources Corp	14.4%
	ONEOK Inc	13.2%
	Valero Energy Corp	9.3%
Laggards	Concho Resources Inc	-12.7%
	Cimarex Energy Co	-7.6%
	Halliburton Co	-6.1%
	TechnipFMC PLC	-5.5%
	Helmerich & Payne Inc	-4.6%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$17.98	$28.45	$32.86
31.1x	19.6x	17.0x

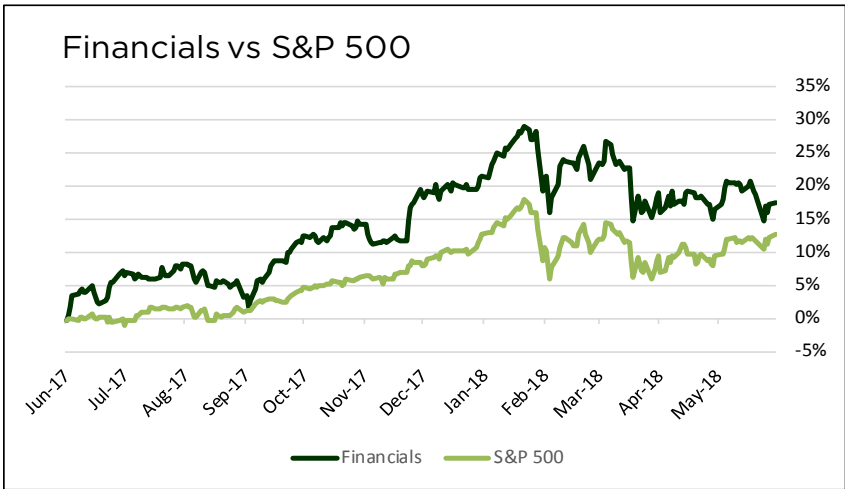
Sector Update

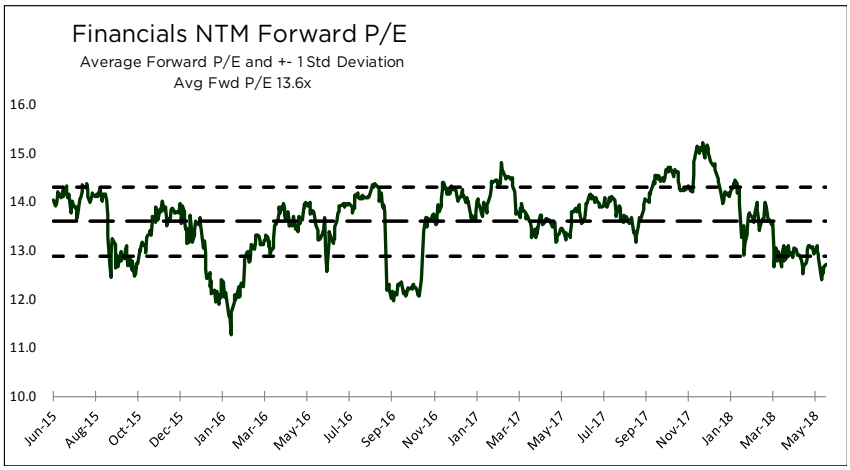
Geopolitics weighed heavily on energy markets in May with the combination of a harshening posture by the U.S. towards Iran combining with uncertainties surrounding the presidential elections in Venezuela. Given Venezuela's global reserve leadership position, the likelihood of a continuation of politics as usual in that market, raises market concerns around continuing drops in production. Meanwhile, the decision by the U.S. to restart Iran sanctions further weighed on oil markets through the month as did fears around rising tensions in the region including Israel and Syria .

Despite continuing production growth including U.S. daily oil production of over 10.5 million barrels per day, WTI crude oil prices continued to climb from lows seen last summer in the mid - $40 per barrel range to the mid - $60's in April and low $70's in May. We note that Baker Hughes rig count data continued its uptrend reaching 844 rigs in May versus 722 rigs in the prior year. U.S. crude oil storage at 432 million barrels, has bounced off January lows, but remains well below the prior year level of 510 million barrels, excluding the Strategic Petroleum Reserve. With the summer driving season just around the corner, prospects for further increases in oil and gasoline prices through the summer appear to be weighing on markets.

Longer-term, the potential for a ramp up in U.S. shale oil production could push down prices, but it appears that after the last downturn, renewed discipline may limit production levels to some extent. In addition, infrastructure shortages around pressure-pumping equipment as well as pipeline availability could slow production ramps. Meanwhile, the International Maritime Organization has provided new guidelines around use of cleaner fuels starting in 2020 that is expected to drive higher demand for middle distillates potentially adding to overall crude requirements.

FINANCIALS





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
-1.12%	-5.98%	-2.95%	16.87%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
2.16%	-0.32%	1.18%	12.17%

	Company Performance	1 Month
Leaders	MSCI Inc	8.5%
	Raymond James Financial	7.6%
	T Rowe Price Group Inc	6.7%
	Moody's Corp	5.2%
	S&P Global Inc	4.7%
Laggards	Unum Group	-19.8%
	Jefferies Financial Group	-9.0%
	Prudential Financial Inc	-8.9%
	Cboe Global Markets Inc	-8.6%
	Fifth Third Bancorp	-7.8%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$28.25	$34.48	$38.02
15.9x	13.1x	11.8x

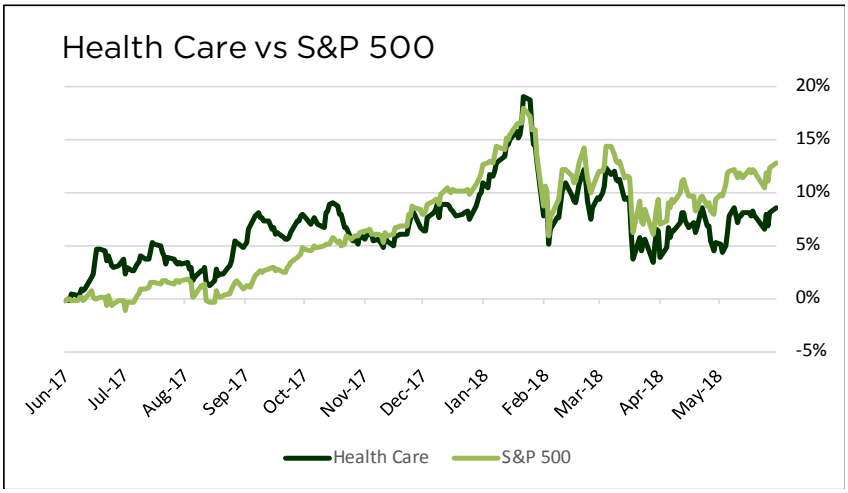
Sector Update

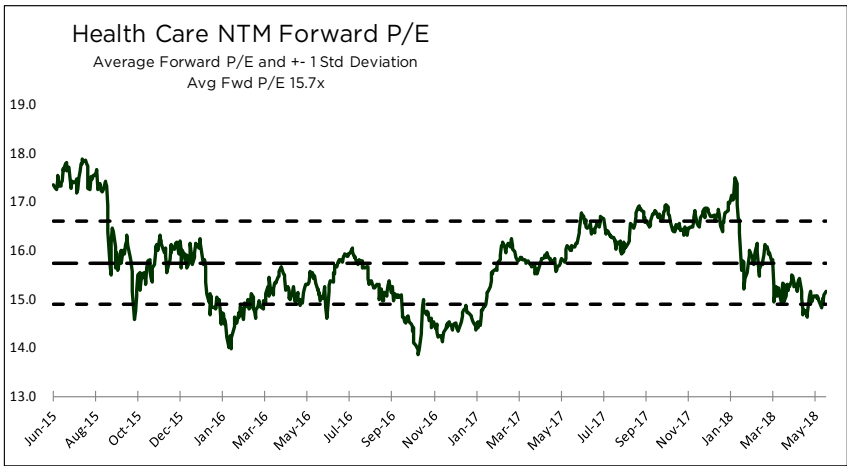
Somewhat surprisingly, the financial sector has modestly lagged the broad market on a year-to-date basis. This seems a bit surprising due to recent Fed interest rate actions, strong earnings and prospects for a more benign regulatory environment that would seem to form a positive background for share performance. Selected sub-sectors, including regional banks and investment banks, have outperformed the market during the first five months of the year. However, a larger number of sub-sectors have lagged the financial sector as a whole.

The market currently anticipates additional hikes in short-term interest rates during 2018; however these expectations have moderated in recent weeks. Approximately 84% of market participants expect a 25 basis point increase in the fed funds rate at the June 13th FOMC decision and 53% think an additional hike will occur in late September. While higher short-term rates are seen as a net positive for the sector, the slope of the yield curve is another key concern of the marketplace. The recent rise in the US Treasury 10-year security has helped maintain a positive slope to the yield curve, but a further flattening of the yield could further pressure many spread-oriented income statements.

First quarter earnings across the sector were generally above prior consensus expectations. Much of the year-over-year improvement was driven by recent tax legislation that was broadly favorable to the financial sector. While now reflected in current earnings expectations, the lower corporate tax rates will facilitate stronger internal capital generation in the future and is clearly a long-term positive for the sector.

The President recently signed Senate and House bill S.2155, entitled The Economic Growth, Regulatory Relief and Consumer Protection Act, known as the Crapo Act. While not as extensive a regulatory relief passage as some hoped, this legislation does materially increase the minimum asset levels before an institution is instantly labeled a SIFI (systemically important financial institution). This is important because any SIFI must participate in the annual CCAR (Comprehensive Capital Analysis & Review) stress testing that determines a company's capital allocation policies. Formerly the Dodd-Frank Act put the SIFI designation of any institution above $50 billion in assets. This threshold is now $250 billion. Companies with assets below $100 billion will be immediately released from the former regulations and the regulators could release companies with assets between $100 and $250 billion before it becomes mandatory in 18 months. There is a case to be made this legislation could stimulate merger activity between smaller institutions that were previously fearful of crossing certain asset levels.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
0.02%	-2.10%	-0.51%	8.42%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
2.16%	-0.32%	1.18%	12.17%

	Company Performance	1 Month
Leaders	Align Technology Inc	32.9%
	ABIOMED Inc	26.6%
	Envision Healthcare Corp	15.4%
	Illumina Inc	13.1%
	Incyte Corp	10.2%
Laggards	Cardinal Health Inc	-18.8%
	DENTSPLY SIRONA Inc	-13.0%
	Celgene Corp	-9.7%
	AmerisourceBergen Corp	-9.3%
	CVS Health Corp	-9.2%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$47.93	$61.57	$66.93
19.9x	15.5x	14.2x

Sector Update

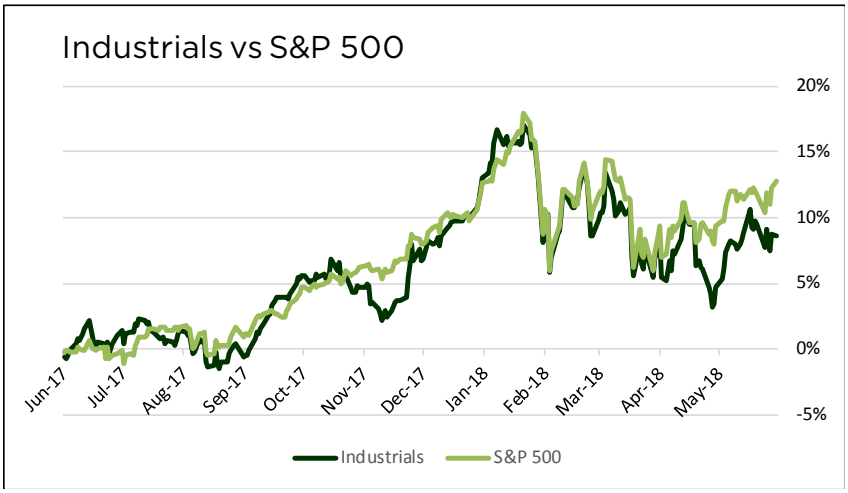
Health care represents ~13.8% weighting among S&P 500 sectors. As depicted in the graphs above, in the 4Q17/1Q18 time frame, the overall health care group performed in line with the broad market (S&P 500) having more recently underperformed as we entered the 2Q18 period. That is, historically, Health Care has been a consistent growth sector tied to aging global demographics, rising wealth and advances in new therapeutics. The key, recurring, factor 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.

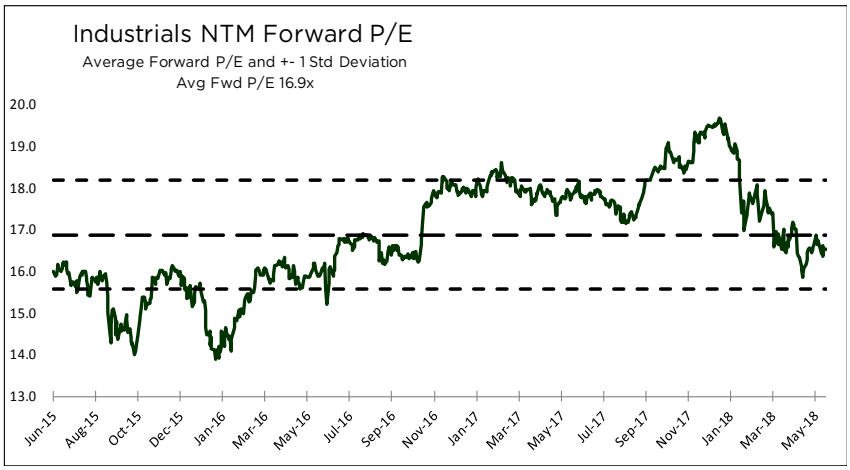
Cigna Corp. CEO, David Cordani, summed up the situation well when commenting on factors driving the announced acquisition of Express Scripts. Cordani suggested the current system is 'broken and unsustainable' requiring restructuring of his firm's business to gain scale and a defensible position. Thus, we are in transition seeing vertical and horizontal consolidation across health care as manufacturers, providers and payors attempt to gain operating efficiency and pricing leverage.

Trends favor companies bringing revolutionary and or cost saving products/services to market; are focused on serving International/EM markets; and, offering innovative 'paid for product performance' pricing mechanisms. Med tech is well positioned having operated under tight pricing constraints globally for years. Among those firms reporting stronger than expected results in 1Q18 was ABIOMED – a leading provider of cardiac support technologies via its Impella heart pumps that support a failing heart aiding in recovery. On the one hand, the dental equipment sector has experienced softening in demand for new hardware as well as consumables that has impacted the entire sector including DENTSPLY. Still, we note that consumer demand for Invisalign orthodontic aligners remains quite strong, driving upside earnings and stock performance for Align Technology.

Continued focus on drug pricing has weighed on valuations among firms involved in distribution of medications including Cardinal Health, AmerisourceBergen and CVS. Beyond the consumer cost issue weighing on sector psychology, R&D and merger activity also have outsized impact on sector valuations – with firms such as Celgene and Incyte experiencing selling pressure post R&D disappointments (with INCY subsequently partially rebounding in May), while a significant M&A deal from Illumina enhancing its data analytics capabilities complementing its core DNA sequencing technology has been a catalyst for the shares.

INDUSTRIALS





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
2.69%	-3.00%	-2.25%	8.25%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
2.16%	-0.32%	1.18%	12.17%

	Company Performance	1 Month
Leaders	Expeditors International of Wa	16.6%
	Jacobs Engineering Group	11.6%
	Quanta Services Inc	10.8%
	Deere & Co	10.5%
	WW Grainger Inc	9.8%
Laggards	Fluor Corp	-17.3%
	Cummins Inc	-10.9%
	Huntington Ingalls Industries	-9.1%
	Flowserve Corp	-6.9%
	Alaska Air Group Inc	-6.3%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$31.56	$36.23	$40.68
19.8x	17.2x	15.3x

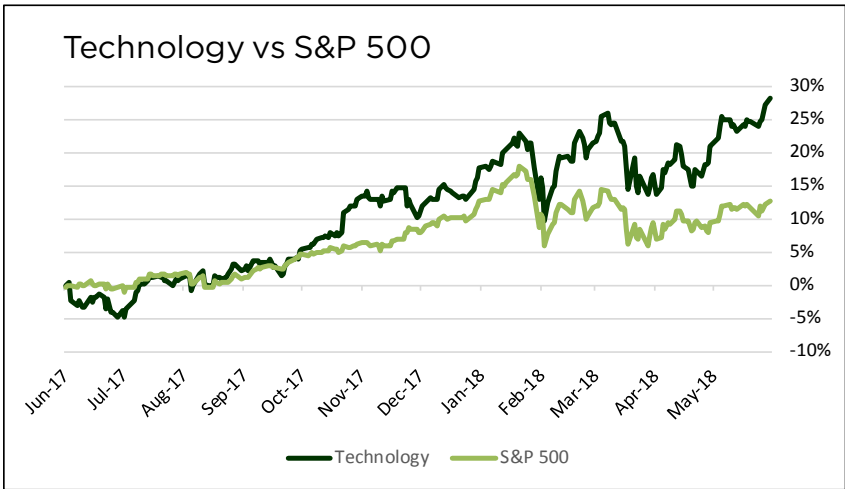
Sector Update

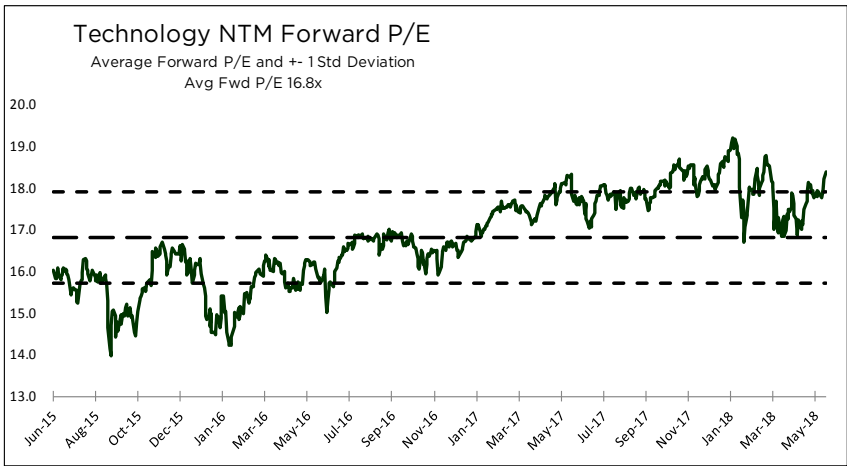
Industrial stocks looked for direction in May as investor enthusiasm around tax reform, immediate capital expensing of qualified assets and a strong first quarter earnings season took a back seat to fluid back and forth trade discussions with China. Both countries appeared to be making headway in averting a trade war and agreed to suspend proposed tariffs against either side. However, by month's end the Trump Administration renewed plans for tariffs on $50bn of imports from China while limiting Chinese access and investment to U.S. high-tech products. The more aggressive tone raised tension between the two countries creating a noisy backdrop for many multi-nationals. Any progress towards increased exports of U.S. products and services to China could be particularly noteworthy for global Industrial companies, especially those involved in the farm/agricultural, aerospace or heavy equipment & machinery industries.

While the U.S. and China trade talks remain in flux, Treasury Secretary Steven Mnuchin confirmed that the ongoing negotiations would not alter the country's stance against certain imported metals from China. The US is holding firm on the 25% tariff for imported Chinese steel and 10% tariff on aluminum, but will now impose those tariffs on previously exempted countries including Canada, Mexico and the European Union. With global commodity inflation on the rise, particularly with steel and aluminum as core inputs costs for many industrials, investors are placing increased focus on margin-protected businesses. The ability to offset rising input costs could remain a point of contention across various industrial sub-segments, and may create a delicate balance between protecting margin through price actions without disrupting underlying demand trends.

Demand for industrial products and services appears healthy and April U.S. Industrial Production data provided positive follow-through on output and capacity utilization as we exited the first quarter earnings season (although first quarter on net was revised lower). April production increased 0.7% over the prior month to 107.3 percent, which was slightly above economist expectations and represented the third consecutive monthly increase, while manufacturing output rose 0.5% for the period. Capacity utilization for manufacturing is still below its long-term average but increased to 75.8% in April, suggesting there is plenty of room to grow as the domestic economy expands.

Market participants will continue to look for clarity around global tariff and trade discussions, and a positive resolution could shift investor attention away from potentially vulnerable industries/companies to those that are poised to benefit from a synchronized global growth environment.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
7.13%	2.94%	10.60%	26.54%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
2.16%	-0.32%	1.18%	12.17%

	Company Performance	1 Month
Leaders	Advanced Micro Devices	26.2%
	Micron Technology Inc	25.3%
	Qorvo Inc	19.1%
	Microchip Technology Inc	16.4%
	QUALCOMM Inc	13.9%
Laggards	Symantec Corp	-25.2%
	Xerox Corp	-13.6%
	DXC Technology Co	-10.6%
	Hewlett Packard Enterprise	-10.6%
	Cognizant Technology	-7.9%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$52.42	$65.00	$71.63
23.3x	18.8x	17.1x

Sector Update

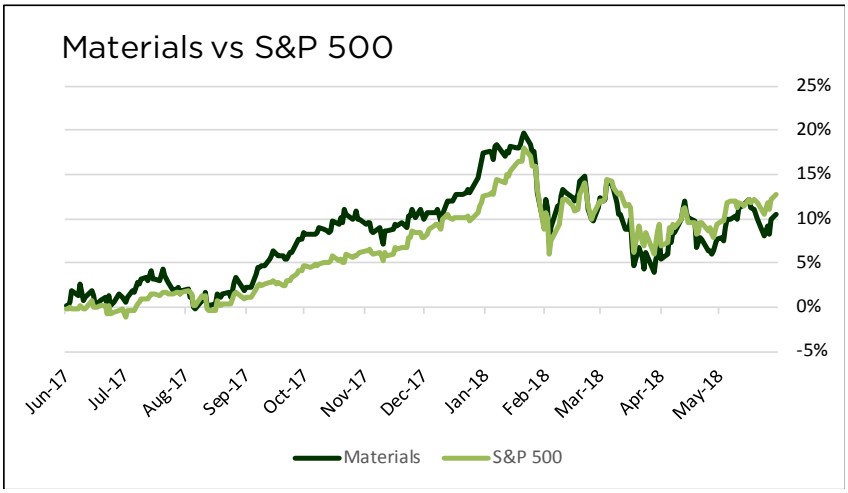
Global corporate information technology (IT) spending typically increases inline with global GDP growth (currently around 3-4%). However, Gartner expects global IT spending to grow 6.2% year-over-year to $3.7 trillion in 2018 due to the weaker U.S. dollar (a number of companies noted a 300 basis point currency tailwind in the March quarter). In addition, U.S. tax reform and accelerated depreciation is spurring higher U.S. corporate IT spending.

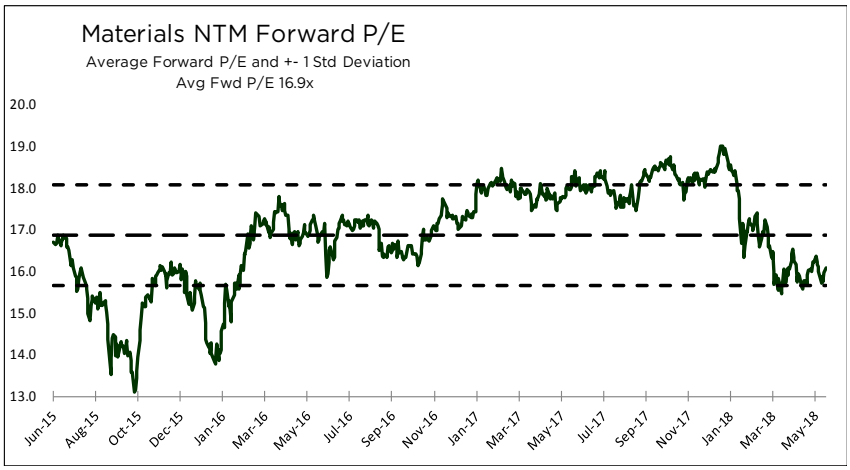
Enterprise software spending is expected to grow 11% and 8.4% year-over-year in 2018/2019, the highest growth rate in the IT sector. Corporations are increasing their spending on software as a service (Saas) from companies such as Adobe Systems, Microsoft, and Oracle. Companies can significantly reduce their on premise IT costs when they move from on premise delivery of software to Saas, since they no longer have to maintain a large IT staff to handle software patches/updates.

Gartner estimated that global device spending (PCS, tablets, smart phones) will rise 6.6% to $706 million in 2018, with device revenue growing at a faster pace than units as consumers opt for premium priced devices. Apple is an example of this phenomenon as it is growing its revenue at a faster pace than its device sales.

Global online advertising revenue continues to grow close to 20% per year, with industry giants Alphabet and Facebook representing more than 70% share of online advertising revenue. The European Union recently introduced its General Data Protection Regulation (GDPR), which is intended to protect consumer privacy. Alphabet and Facebook have the financial resources to comply with this new regulation and smaller competitors are struggling to comply with them. According to the Wall Street Journal, Google's online ad services are gaining share in Europe since Google is obtaining user consent at a far faster pace than smaller competitors.

The recent trade spat between the U.S. and China contributed to volatility in the technology sector, particularly in the semiconductor segment where a number of companies generate significant revenue from China. There is potential risk that IT spending could come in lower than expected if the U.S. is unable to settle its trade dispute with China and is unable to reach an agreement with Canada and Mexico on a new North American Free Trade Agreement.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
1.83%	-2.60%	-4.15%	9.32%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
2.16%	-0.32%	1.18%	12.17%

	Company Performance	1 Month
Leaders	Martin Marietta Materials	14.4%
	Vulcan Materials Co	14.4%
	Freeport-McMoRan Inc	11.1%
	FMC Corp	9.2%
	LyondellBasell Industries	6.0%
Laggards	International Flavors & Fragrances	-13.5%
	Ball Corp	-7.8%
	PPG Industries Inc	-4.7%
	Albemarle Corp	-3.6%
	Ecolab Inc	-1.5%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$17.82	$22.22	$24.13
20.4x	16.3x	15.1x

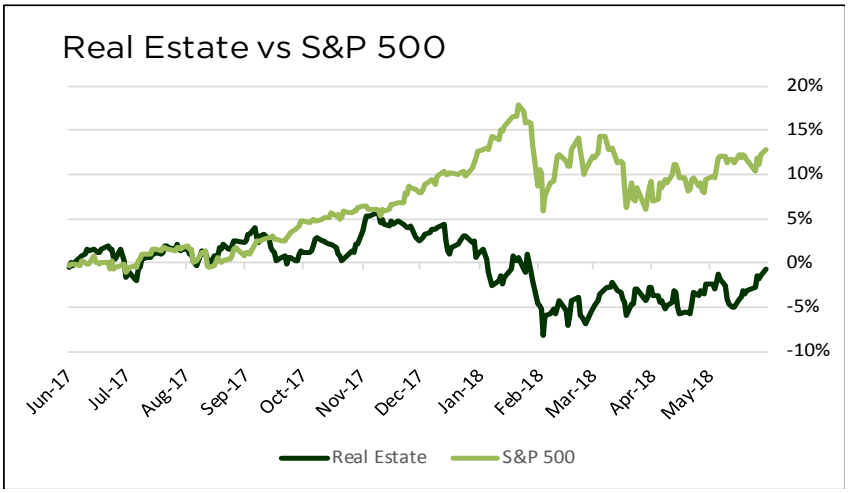
Sector Update

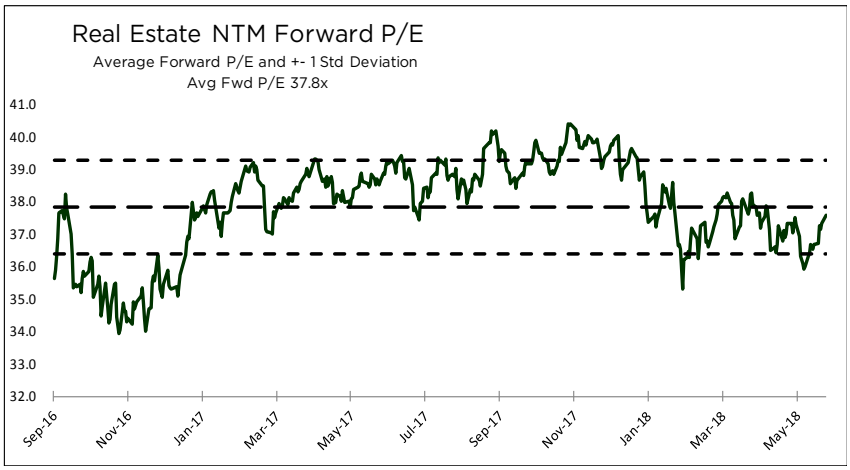
With a backdrop of expected 2.6% US GDP growth for 2018 according to Bloomberg, many US specialty companies should report increased organic sales and profit growth over the next several quarters. Within specialty chemicals, categories include water treatment and manufacturing processing chemicals, additives, coatings, pesticides, electronic materials, catalysts, flavors, fragrances, adhesives and sealants. Companies range from focusing on one product line to larger ones with multiple offerings. In addition, these companies may generate a large share of total sales from outside the U.S. and remain subject to currency fluctuation. In addition, volatility in energy inputs could impact results for these companies. Further consolidation within product lines and among companies should continue as companies seek to increase sales and earnings.

The popularity of electric vehicles as well as power tools has driven heightened interest in the lithium segment in 2018. Recent fears of excess lithium capacity has created volatility in the stocks year to date and concerns for lower prices. Companies that remain uniquely positioned in the lithium industry with a combination of vertical integration, knowledge and access to diversified resources should benefit from a competitive advantage. In addition, those companies with extensive global footprints and long-term customer relationships should deliver more consistent pricing and long-term returns. Overall lithium demand through 2025 should total 800 kT LCE (18% CAGR from 2017-2025) supported by growth for transportation, consumer electronic and other segments. The key question remains whether lithium global supply and demand should remain balanced along with pricing as additional capacity enters the market.

The outlook for fertilizer & agricultural chemical companies (consists of makers of agricultural fertilizers, pesticides, seeds, and lawn and garden products) remains subject to global crop markets and the economic health of farmers. In addition, tariffs and discussions continue to create volatility in the group. Corn remains the largest user for agricultural chemicals. Growth in global nutrient use has primarily resulted from developing countries in Asia and Latin America driven by a rising population and income level. As a result, fertilizer and seed companies remain focused on serving these markets. Demand for fertilizers remains favorable for 2018 at this time. U.S. fertilizer prices are showing signs of stabilizing after a period of weakness over the past several years. Fertilizer prices tend to trade with corn prices, but excess capacity in recent years has hurt negatively impacted prices in recent years. Natural gas prices have been low which drove increased production of fertilizer. Natural gas is a major component of nitrogen production.

For the chemicals segment, the outlook is favorable supported by a favorable macroenvironment driven by expected higher volumes. According to forecasts from the American Chemistry Council, chemical production in North America should accelerate through 2018 following weak performance in prior years. Recent strength has been reported in coatings, consumer products, specialty chemicals, agricultural chemicals, and plastic resins.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
1.97%	4.50%	-4.66%	-0.97%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
2.16%	-0.32%	1.18%	12.17%

	Company Performance	1 Month
Leaders	Host Hotels & Resorts Inc	10.6%
	Welltower Inc	7.9%
	Extra Space Storage Inc	7.4%
	Kimco Realty Corp	6.5%
	Ventas Inc	6.3%
Laggards	Equinix Inc	-5.7%
	Macerich Co/The	-3.5%
	Iron Mountain Inc	-1.9%
	SBA Communications	-1.3%
	Regency Centers Corp	-1.3%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$4.27	$5.09	$5.43
45.5x	38.2x	35.8x

Sector Update

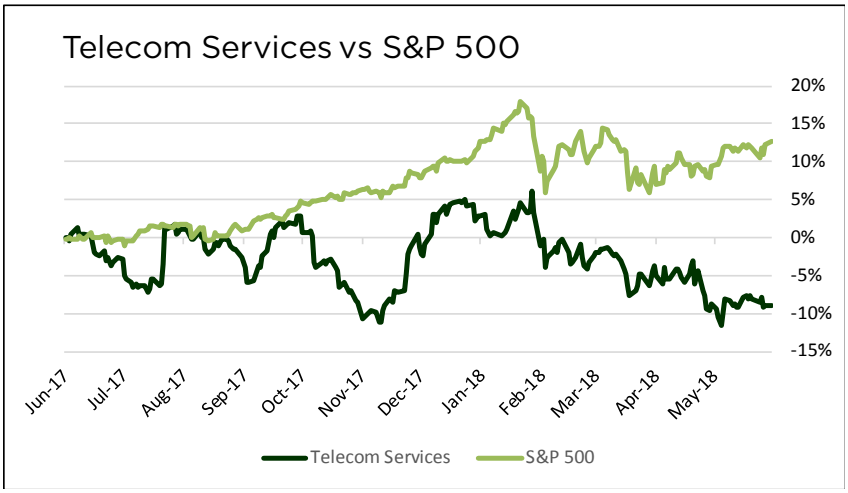
Real Estate was recognized as a distinct sector of the S&P 500 in August 2016 and currently represents ~3.5% weighting of the overall index. As depicted in the graphs above, into 4Q17 and early 2018, the overall REIT group underperformed the broad market (S&P 500) after previously having outperformed dating back to the year 2000. Although the REIT sector generated total 2017 returns of approximately 9.27% - consistent with long term multi-decade levels – this paled in comparison to the 21.8% returns generated by the overall S&P 500 that benefitted from strong global GDP gains.

Ensuing 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 3.00% - that offered investors enhanced returns from government bonds. Still, we note that of late, REIT performance has fairly well tracked that of the S&P 500, while over the longer term, REITs have achieved consistent growth in net operating income (NOI) within 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, on-line purchases by consumers has grown from ~3% of totals to 10% dramatically impacting big box retailers, while growing demand for logistics warehouses. In a similar fashion, the move to the 'cloud' drives data center demand, while a resilient economy has driven consumer/business demand for lodging.

Evidence of these shifts in demand among REIT subsectors was evident in the past month with strength evident from Host Hotels (lodging) and Extra Space Storage (self-storage facilities). In addition, health care REITs Welltower and Ventas reported sector new capacity ground breakings have slowed of late that saw these issues rebound. Equinix reported mixed results in 1Q18 with churn among slower growth Verizon assets pressuring the shares of this leading data center co-location and interconnection service provider, while retail mall owner Macerich had an earnings shortfall as the firm moves to recycle non-core assets.

TELECOMMUNICATION SERVICES



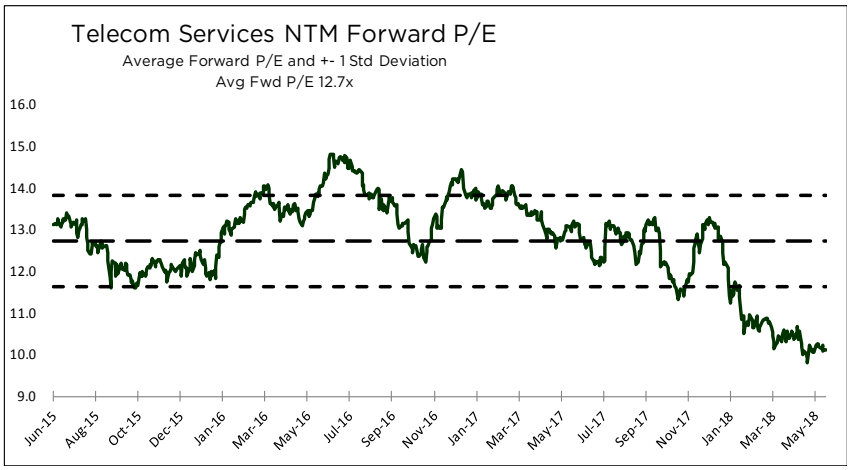
Sector Performance

1 Month	3 Months	YTD	TTM
-2.27%	-5.54%	-12.77%	-8.75%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
2.16%	-0.32%	1.18%	12.17%

	Company Performance	1 Month
Members	AT&T Inc	-1%
	CenturyLink Inc	-2%
	Verizon Communications	-3%



Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$11.58	$14.25	$14.52
12.5x	10.2x	10.0x

Source : Bloomberg

Sector Update

The U.S. telecommunications sector is becoming transformed by significant mergers, including the potential merger between Sprint/T Mobile, AT&T and Time Warner (court decision expected on June 12) and Comcast's bid for Sky TV and potential bid for 20th Century Fox assets.

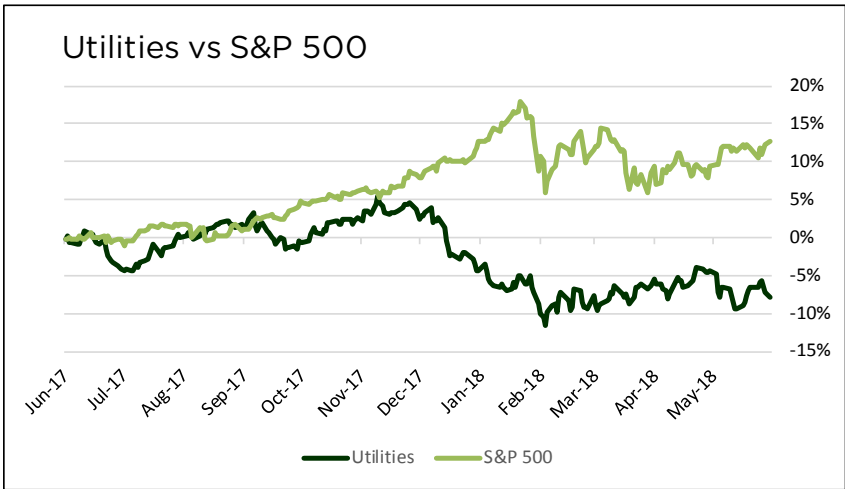
Over the past several years, T Mobile sparked a price war in the U.S. wireless sector, with pricing significantly below industry leaders, AT&T and Verizon. If Sprint and T Mobile obtain U.S. regulatory approval to merge, then more than 90% of U.S. wireless subscribers will be controlled by the top three carriers. Despite the potential consolidation of the wireless market, the U.S. wireless market will remain intensely competitive due to the entry of Charter and Comcast into the market.

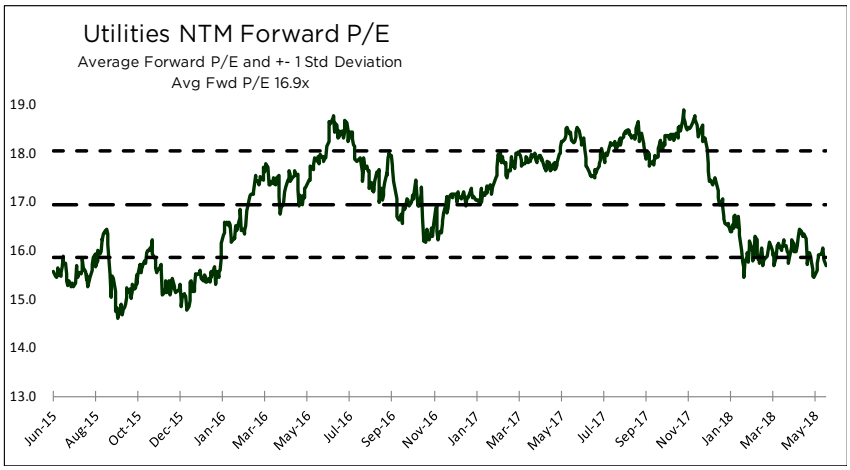
Over the next several years, the introduction of 5G wireless technology should significantly expand the wireless carriers' potential revenue opportunity as these networks make possible Internet of Things (machines connected by 5G networks) and self-driving cars. 5G wireless networks offer far higher connection speeds (1 gigabit) than current 4G networks (5-20 megabits). Given 5G wireless networks low latency (almost no time lag between sending and receiving a data signal), the 5G networks will enable the safer operation of self-driving cars (the cars computers can interact with other vehicles/ stop lights/etc.).

Both AT&T and Verizon will introduce 5G wireless in several cities this year. Their initial focus will be to offer 5G fixed wireless high-speed Internet service to homes. It may take several years for U.S. wireless carriers to build out extensive 5G wireless networks, since these networks require more tower connections than existing 4G networks. 5G wireless may not become a meaningful revenue opportunity until 2020-2021.

A U.S. Federal court is expected to rule on the potential AT&T/Time Warner merger on June 12. If the court approves this merger, AT&T will become more diversified and its revenue could stabilize.

Comcast may bid for 20th Century Fox assets if the AT&T/Time Warner merger is approved. The potential acquisition of these assets will provide Comcast with more content and control of Hulu, a leading streaming media site. Increased content will lessen Comcast's exposure to the competitive telecommunications sector (Comcast offers voice, video and high-speed Internet service).





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
-1.69%	3.75%	-3.89%	-5.41%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
2.16%	-0.32%	1.18%	12.17%

	Company Performance	1 Month
Leaders	NRG Energy Inc	10.4%
	Exelon Corp	4.3%
	AES Corp/VA	4.2%
	NiSource Inc	3.7%
	CenterPoint Energy Inc	3.2%
Laggards	PPL Corp	-6.1%
	PG&E Corp	-6.0%
	Eversource Energy	-5.3%
	Edison International	-5.1%
	Sempra Energy	-4.7%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$15.56	$15.68	$16.48
16.5x	16.4x	15.6x

Sector Update

The utilities sector has underperformed the market on a year-to-date basis. This is hardly surprising since long-term interest rates have trended higher over the course of the year and this is clearly an interest-sensitive sector. This inverse relationship to long-term interest rates is understandable since this increases a utility's cost of capital and there is a lag between market actions and regulatory rate cases to account for such costs. While price performance has broadly been weak in the first five months of the year, traditional electric utilities have fared somewhat better than their multi-utility peers. However, both sub-sectors have underperformed the market since the beginning of the year.

First quarter earnings generally beat prior expectations due to colder than normal weather. More important for investors was the impact of recent tax reform on utility cash flows and capital structures. Broadly, utilities were one of the few sectors that did not clearly benefit from recent tax legislation. This is mostly due to the fact most utilities include taxes as a cost of service when they charge customers. The benefits of lower corporate income taxes must be passed to the customer in a form of refunds and/or lower future service expenses. While this usually does not impact stated earnings per share, it does negatively impact the company's cash flow. This has triggered some utilities to increase their likely dependence on the equity markets for capital to finance projected capital budgets.

These pressures were illustrated by a recent transaction between Southern Company (SO) and NextEra Energy (NEE). These two companies signed a definitive agreement for SO to sell Gulf Power Company, Florida City Gas and its interests in two gas-fired FL plants. The transaction is all cash and is for a total of $6.475B including the assumption of $1.4B of Gulf Power debt. SO will use the proceeds to de-lever its balance sheet by a net of $2.0B and provides $3.0B in equity to fund its five-year growth plan. SO now feels the $7.0B needed for its growth plan can come from this transaction, the sale of tax equity from its wind portfolio and internal equity plans like the DRIP and ATM programs. NEE feels these in-market acquisitions will be accretive to its 2020 and beyond earnings per share. NEE will issue $5.0B in new debt to fund the transactions and these deals will increase the percentage of earnings contributions from regulated entities to about 70%. NEE expects positive ratings implications from the deal despite the use of debt for funding. Net, net the transaction appears to make strategic and financial sense for both entities.

Date	Release	For	Consensus	Prior
4-Jun	Factory Orders	Apr	-0.50%	1.70%
5-Jun	ISM Services	May	58	56.8
5-Jun	JOLTS - Job Openings	Apr	NA	6.550M
6-Jun	MBA Mortgage Index	2-Jun	NA	-2.90%
6-Jun	Trade Balance	Apr	-$48.8B	-$49.0B
6-Jun	Productivity-Rev.	Q1	0.60%	0.70%
6-Jun	Unit Labor Costs - Rev.	Q1	2.80%	2.70%
6-Jun	Crude Inventories	2-Jun	NA	-4.2M
7-Jun	Initial Claims	2-Jun	225	221K
7-Jun	Continuing Claims	May	NA	1726K
7-Jun	Natural Gas Inventories		NA	+96 bcf
7-Jun	Consumer Credit	Apr	$13.9B	$11.6B
8-Jun	Wholesale Inventories	Apr	0.20%	0.30%
12-Jun	CPI	May	NA	0.20%
12-Jun	Core CPI	May	NA	0.10%
12-Jun	Treasury Budget	May	NA	-$88.4B
13-Jun	MBA Mortgage Index	9-Jun	NA	NA
13-Jun	PPI	May	NA	0.10%
13-Jun	Core PPI	May	NA	0.20%
13-Jun	Crude Inventories	9-Jun	NA	NA
13-Jun	FOMC Rate Decision	Jun	NA	1.63%
14-Jun	Export Prices ex-ag.	May	NA	0.70%
14-Jun	Import Prices ex-oil	May	NA	0.20%
14-Jun	Initial Claims	9-Jun	NA	NA
14-Jun	Continuing Claims	2-Jun	NA	NA
14-Jun	Retail Sales	May	NA	0.30%
14-Jun	Retail Sales ex-auto	May	NA	0.30%
14-Jun	Business Inventories	Apr	NA	0.00%
14-Jun	Natural Gas Inventories	9-Jun	NA	NA
15-Jun	Empire Manufacturing	Jun	NA	20.1
15-Jun	Industrial Production	May	NA	0.70%
15-Jun	Capacity Utilization	May	NA	78.00%
15-Jun	Net Long-Term TIC Flows	Apr	NA	$61.8B
18-Jun	NAHB Housing Market Index	Jun	NA	70
19-Jun	Housing Starts	May	NA	1287K
19-Jun	Building Permits	May	NA	1352K
20-Jun	MBA Mortgage Index	16-Jun	NA	NA
20-Jun	Current Account Balance	Q1	NA	-$128.2B
20-Jun	Existing Home Sales	May	NA	5.46M
20-Jun	Crude Inventories	16-Jun	NA	NA
21-Jun	Initial Claims	16-Jun	NA	NA
21-Jun	Continuing Claims	9-Jun	NA	NA
21-Jun	Philadelphia Fed	Jun	NA	34.4
21-Jun	FHFA Housing Price Index	Apr	NA	0.10%

Source: Briefing.com

21-Jun	Leading Indicators	May	NA	0.40%
21-Jun	Natural Gas Inventories	16-Jun	NA	NA
25-Jun	New Home Sales	May	NA	662K
26-Jun	S&P Case-Shiller 20-city Index	Apr	NA	6.80%
26-Jun	Consumer Confidence	Jun	NA	128
27-Jun	MBA Mortgage Applications Index	23-Jun	NA	NA
27-Jun	Durable Orders	May	NA	-1.70%
27-Jun	Durable Goods –ex transportation	May	NA	0.90%
27-Jun	Adv. Intl. Trade in Goods	May	NA	-$68.2B
27-Jun	Adv. Wholesale Inventories	May	NA	0.00%
27-Jun	Current Account Balance	Q1	NA	-$128.2B
27-Jun	Pending Home Sales	May	NA	-1.30%
27-Jun	Crude Inventories	23-Jun	NA	NA
28-Jun	GDP - Third Estimate	Q1	NA	2.20%
28-Jun	GDP Deflator - Third Estimate	Q1	NA	1.90%
28-Jun	Initial Claims	23-Jun	NA	NA
28-Jun	Continuing Claims	16-Jun	NA	NA
28-Jun	Natural Gas Inventories	23-Jun	NA	NA
29-Jun	Personal Income	May	NA	0.30%
29-Jun	Personal Spending	May	NA	0.60%
29-Jun	PCE Prices	May	NA	0.20%
29-Jun	PCE Prices - Core	May	NA	0.20%
29-Jun	Chicago PMI	Jun	NA	62.7
29-Jun	Univ. of Michigan Consumer Sentiment - Final	Jun	NA	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.

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