MARKET COMMENTARY

DAVENPORT 1863
BUILDING WEALTH TOGETHER

DECEMBER 2024

- The best performing sector for November was Consumer Discretionary while the worst was Health Care
- New administration economic policies in focus
- The path of future interest rates may become increasingly important to equity valuations

Equities moved substantially higher in the weeks following the Presidential election as the decisiveness of the victory removed some uncertainty around the post-election political environment and leadership transition. The favorable market backdrop is fueling optimism for a "Santa Claus" rally to cap off what has been a strong year for equities. Despite this optimism, however, questions are emerging regarding potential Trump administration economic policies and the upcoming mid-December Federal Reserve interest rate decision that could represent possible hurdles for investors to clear going into year-end.

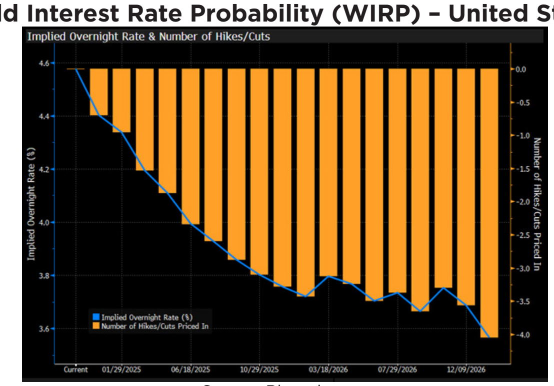
As noted, equity markets climbed post-election, and for the full month of November, the Dow Jones Industrial Average increased by 7.5%, the S&P 500® index was up 5.7%, and the smaller cap weighted Russell 2000® increased by 10.8%. The VIX index, or fear gauge, which dropped sharply in the days after the election, has remained in relatively benign territory tracking in the mid- to low-teens through much of November.

All eleven industry sectors of the S&P 500 increased during November. The best performing sector was Consumer Discretionary which increased 13.2% and was followed by the Financials sector which was up 10.2% and the Industrials sector up 7.3%. The weakest performance in the month was posted by the Health Care sector which increased by 0.1% followed by the Communications Services sector which was up 3.1% and the Utilities sector which increased by 3.2%. For the prior twelve months period, the Financials sector was the best performer with a 43.2% increase followed by the Communication Services sector which was up 40.6%, while the Health Care sector was the worst performer for the past twelve months with a 12.2% increase followed by the Energy sector which was up 12.9%.

With the Presidential election only about a month behind us, attention has now turned to the economic outlook and potential policy alternatives that may be pursued by the new administration such as regulatory rollbacks that could spur new growth or tariffs to address policy goals in areas such as immigration. In recent days the President-elect indicated plans to enact new tariffs of 25% on goods from Mexico and Canada as well as an additional 10% for goods from China. Given U.S. dependence on imported products, implementing broad restrictive tariff policies while also achieving inflation goals would appear to be quite challenging, particularly if some of the more extreme tariff measures were implemented. Although at this point it remains difficult to handicap the actual likelihood of significant new tariffs, the countries mentioned do represent the U.S.'s three largest trading partners and the inflationary impacts from these tariffs would appear to present an increasing risk for investors to contemplate in expectations for 2025 and beyond.

Given inflationary risk in potential new tariffs and pro-growth economic policies, the path of future interest rates may become an increasingly important risk factor as it relates to equity valuations in 2025. We note that expectations around rate cuts appear high as measured by implied rates derived from Fed Funds futures. The following chart from Bloomberg underscores the magnitude of future rate cuts currently embedded in futures markets. Upward deviations from this path due to factors such as rising inflation, could present significant risk to the bull market.

World Interest Rate Probability (WIRP) – United States



Source: Bloomberg

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In addition to near term inflation and interest rate concerns stemming from policy shifts, investors are also evaluating the potential trajectory of U.S. deficit spending and the national debt. On the one hand, President-elect Trump appears inclined to pursue a lower tax agenda including pressing for the renewal of the 2017 tax cuts. On the other hand, the incoming administration has outlined a new Department of Government Efficiency to be led by Elon Musk and Vivek Ramaswamy with a charge to seek $2 trillion in spending cuts. Although this target appears aspirational, the effort to reign in government spending under new austerity plans provides some comfort for those concerned by the trajectory of government spending and U.S. debt to GDP. These trends have emerged as key issues for the new President and for investors into 2025 and beyond. Concerns are growing around both the absolute level of debt and the debt to GDP ratio with forecasts from the Congressional Budget Office pointing to an annual deficit of $2.8 trillion by 2034 (up from recently reported fiscal 2024 levels of $1.83 trillion). Interest payments on U.S. debt are thus poised to become the largest line item in the federal budget in a few short years, impacting future economic growth prospects.

If forthcoming as forecast, employment datasets along with late November's PCE detail would seem to be supportive of the FOMC's existing interest rate easing strategy – likely pointing to another 25 BPS cut to the funds rate at either the upcoming December 18 session and/or with the subsequent January 29 meeting. Further, investors' expectations for an additional 50 BPS of FOMC cuts during 2025 – closing the year within a range of 375-400 BPS – appears reasonable given latest economic datasets although as mentioned earlier we note that 2025 may be influenced by new policies implemented by the incoming administration. We await an updated FOMC 'dot plot' with the December 18th FOMC session for a recap of latest Fed governors' views on the outlook for the U.S. economy and interest rates. An important market risk in our view, remains tied to new initiatives from the Trump administration that could drive expectations/sentiment discussion to one focused on rising inflation, causing the FOMC to shift to a tighter interest rate policy later in 2025.

Where to from here?

Looking into 2025, consensus forecasts continue to target double digit earnings gains each quarter with momentum ramping as the year progresses (with Bloomberg reporting consensus 2025E at $272.71 being up about 12.5%). Clearly, the consensus has a very optimistic outlook for the U.S. economy to achieve a soft landing with easing inflation along with further interest rate cuts by the FOMC into 3Q2025 along with initial efforts by the Trump administration to cut regulatory burden and initiate efforts to enhance growth. Although uncertainty exists regarding Trump administration strategies and the outlook for inflation and interest rates, we do look for improved economic momentum to arise into the second half of 2025 as initial FOMC rate cuts flow through the economy.

We remain optimistic on market prospects, while noting the S&P 500 currently trades at over 22x the consensus 2025 earnings estimate – well ahead of the trailing five year average of 19.6x. In the near term, we see a range of uncertainties emerging related to policies over tariffs and deficit spending, while latest Fedspeak has Fed Chair Powell et al suggesting the FOMC is in no rush to lower the funds rate. So, stay tuned for an update on policy with the December 18th FOMC session, while we also await the January 20th Presidential inauguration. In sum, we have been encouraged by broadening participation across equity markets and anticipate momentum remains positive into the December 18th FOMC session when we will derive incremental detail on Fed policy heading into the New Year. However, given relative valuations, we remain selective with investment focused among quality, well-managed company stocks poised to potentially benefit from an improved economic outlook into the second half of 2025.

MARKET AND ECONOMIC STATISTICS

Market Indices:	11/29/2024	12/29/2023	% Change YTD	10/31/2024	% Change (Monthly)
S&P Composite	6,032.38	4,769.83	26.47%	5,705.45	5.73%
Dow Jones Industrials	44,910.65	37,689.54	19.16%	41,763.46	7.54%
NASDAQ Composite	19,218.17	15,011.35	28.02%	18,095.15	6.21%
Russell 2000	2,434.73	2,027.07	20.11%	2,196.65	10.84%
FTSE 100	8,287.30	7,733.24	7.16%	8,110.10	2.18%
Shanghai Composite	3,326.46	2,974.94	11.82%	3,279.82	1.42%
Nikkei Stock Average	38,208.03	33,464.17	14.18%	39,081.25	-2.23%
Stoxx Europe 600	510.25	478.99	6.53%	505.39	0.96%
MSCI Emerging Markets	1,078.57	1,023.74	5.36%	1,119.52	-3.66%
MSCI Emerging Markets Small Cap	1,422.85	1,367.16	4.07%	1,456.11	-2.28%
Performance of S&P 500 by Industry:	**% of Index as of 11/29/2024**	**1 Month**	**3 Month**	**Year to Date**	**12 Months**
Consumer Discretionary	10.74%	13.24%	19.28%	26.19%	33.85%
Consumer Staples	5.71%	4.55%	2.07%	18.18%	21.04%
Energy	3.44%	6.28%	4.05%	13.13%	12.91%
Financials	13.92%	10.16%	12.22%	36.02%	43.17%
Health Care	10.56%	0.13%	-6.34%	7.76%	12.22%
Industrials	8.64%	7.33%	9.30%	25.84%	34.46%
Information Technology	31.32%	4.57%	6.05%	34.19%	39.28%
Materials	2.08%	1.45%	0.21%	10.19%	14.97%
Communication Services	8.88%	3.09%	9.70%	34.21%	40.63%
Utilities	2.46%	3.16%	8.61%	30.07%	32.27%
Real Estate	2.24%	3.98%	3.22%	11.97%	20.89%
S&P 500 (Absolute performance)	100.00%	5.73%	6.80%	26.47%	32.06%
Interest Rates:	**11/29/2024**	**12/29/2023**	**YTD Change (Basis Points)**	**10/31/2024**	**Month Change (BPS)**
Fed Funds Effective Rate	4.58%	5.33%	-75	4.83%	-25
Prime Rate	7.75%	8.50%	-75	8.00%	-25
Three Month Treasury Bill	4.46%	5.33%	-87	4.54%	-8
Ten Year Treasury	4.17%	3.88%	29	4.28%	-12
Spread - 10 Year vs 3 Month	-0.30%	-1.45%	116	-0.26%	-4
Foreign Currencies:	**11/29/2024**	**12/29/2023**	**% Change YTD**	**10/31/2024**	**% Change (Monthly)**
Brazil Real (in US dollars)	0.17	0.21	-18.7%	0.17	-3.1%
British Pound (in US dollars)	1.27	1.27	0.0%	1.29	-1.3%
Canadian Dollar (in US dollars)	0.71	0.76	-5.4%	0.72	-0.5%
Chinese Yuan (per US dollar)	7.25	7.10	2.1%	7.12	1.8%
Euro (in US dollars)	1.06	1.10	-4.2%	1.09	-2.8%
Japanese Yen (per US dollar)	149.77	141.04	6.2%	152.03	-1.5%
Commodity Prices:	**11/29/2024**	**12/29/2023**	**% Change YTD**	**10/31/2024**	**% Change (Monthly)**
CRB (Commodity) Index	535.74	510.32	5.0%	534.44	0.2%
Gold (Comex spot per troy oz.)	2643.15	2062.98	28.1%	2743.97	-3.7%
Oil (West Texas int. crude)	68.00	71.65	-5.1%	69.26	-1.8%
Aluminum (LME spot per metric ton)	2576.72	2345.50	9.9%	2591.61	-0.6%
Natural Gas (Futures 10,000 MMBtu)	3.36	2.51	33.8%	2.71	24.2%
Economic Indicators:	**10/31/2024**	**1/31/2024**	**% Change YTD**	**9/30/2024**	**% Change (Monthly)**
Consumer Price Index	315.5	309.7	-1.8%	314.7	0.2%
Producer Price Index	256.7	255.0	-0.7%	257.2	-0.2%
	3Q24	**2Q24**	**1Q24**	**4Q23**	**3Q23**
GDP Growth Rate (Quarterly)	2.80%	3.00%	1.60%	3.20%	4.40%
Unemployment Rate (End of Month)	**October** **4.1%**	**September** **4.1%**	**August** **4.2%**	**July** **4.3%**	**June** **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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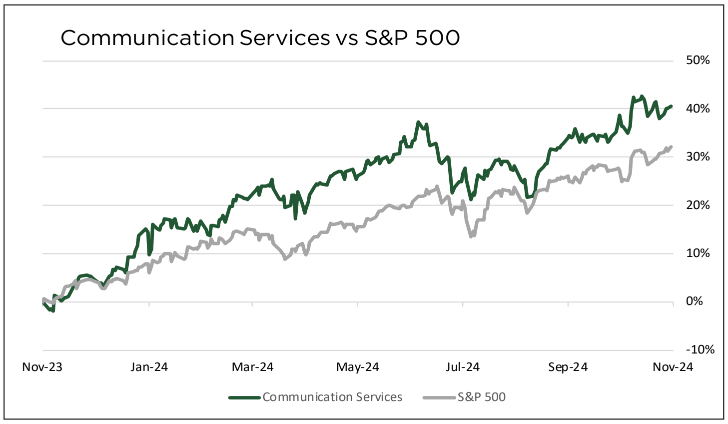
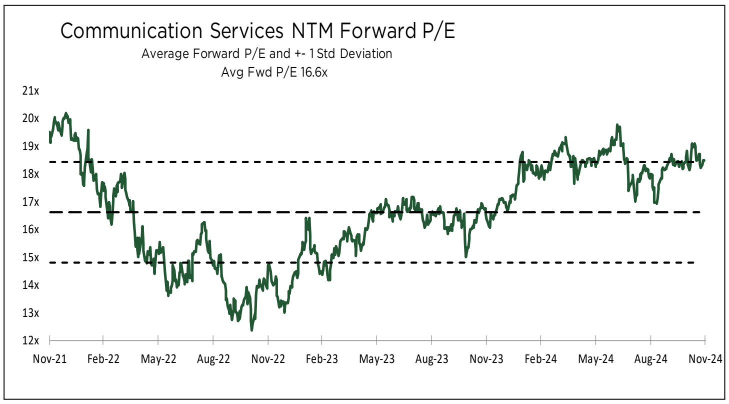
Sector Updates

COMMUNICATIONS SERVICES





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
3.09%	9.70%	34.21%	40.63%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
5.73%	6.80%	26.47%	32.06%

	Company Performance	1 Month
Leaders	Warner Bros Discovery	28.9%
	Walt Disney Co/The	22.1%
	Charter Comm. Inc	21.2%
	Live Nation	18.0%
	Netflix Inc	17.3%
Laggards	Match Group Inc	-9.1%
	Alphabet Inc	-1.3%
	Alphabet Inc	-1.3%
	Comcast Corp	-1.1%
	Paramount Global	-0.8%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$14.76	$15.50	$17.64
22.4x	21.3x	18.7x

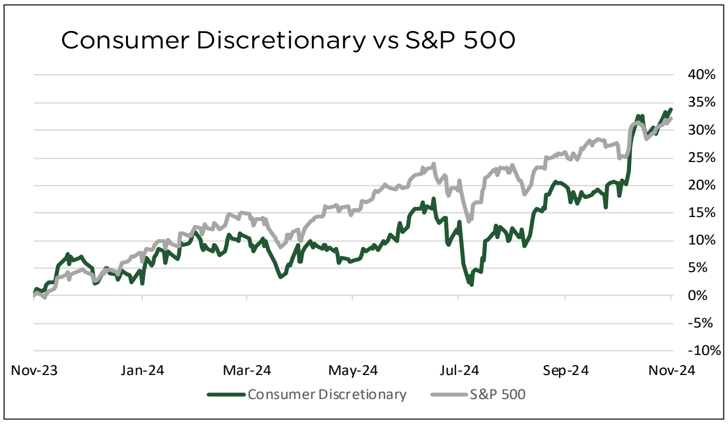
Sector Update

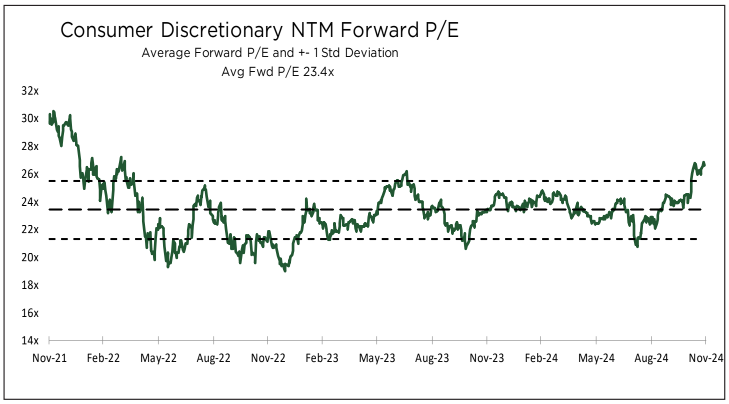
Communications Services and its Diversified Telecommunications Services, Interactive Media & Services, and Media sub-sectors underperformed the market in November. Recent developments in the U.S. government's antitrust cases against Alphabet and Meta Platforms may have impacted the equity performance of the Interactive Media & Services sub-sector. The U.S. Department of Justice recently advocated antitrust remedies to curb Alphabet's Google search business, including the potential divestiture of its Chrome browser and its Android operating system. The Federal District Court is expected to issue its decision in the Alphabet antitrust case next summer. Recently, a Federal judge ruled that Meta Platforms will face trial in April over the U.S. Federal Trade Commissions' antitrust suit, which was initiated in 2020 during President Trump's first term. The FTC alleged that Meta Platforms illegally acquired Instagram and WhatsApp to maintain its social media monopoly.

The Entertainment sub-sector significantly outperformed the market in November, with Warner Brothers Discovery, the Walt Disney Company, and Netflix among the top performing equities in the Communications Sector. Disney and Warner Brothers Discovery guided to a significant increase in their streaming media profits in 2025, which contributed to the appreciation in their share prices. Netflix, the largest streaming media company with 283 million subscribers, reported better than expected results and provided guidance ahead of the consensus estimates.

Streaming media companies reported robust demand for their lower priced ad-supported services, which represented more than 50% of their new subscriber additions. According to Nielsen, streaming content services continued to gain share of total U.S. TV viewing in September 2024, with 41% share of total U.S. TV viewing in September 2024, compared to broadcast TV with 22.6% share, and cable with 26.1% share. Alphabet's YouTube had lead share (10.6%) of total U.S. viewing, followed by Netflix at 7.9%, Disney+/Hulu at 4.9%, and Amazon Prime at 3.6%.

The Communications Services sector appears close to fairly valued, with a P/E of 21.3x and 18.7x the consensus analyst FY24/FY25 EPS estimates, compared to estimated FY25 earnings growth of 14% and its average twelve-month forward P/E multiple of 16.6x.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
13.24%	19.28%	26.19%	33.85%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
5.73%	6.80%	26.47%	32.06%

	Company Performance	1 Month
Leaders	Tesla Inc	38.1%
	Tapestry Inc	31.3%
	Deckers Outdoor Corp	21.8%
	Royal Caribbean	18.3%
	Expedia Group Inc	18.1%
Laggards	Caesars Entertainment	-3.9%
	Aptiv PLC	-2.3%
	Wynn Resorts Ltd	-1.7%
	Hasbro Inc	-0.7%
	Best Buy Co Inc	-0.5%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$58.07	$58.32	$64.16
30.8x	30.7x	27.9x

Sector Update

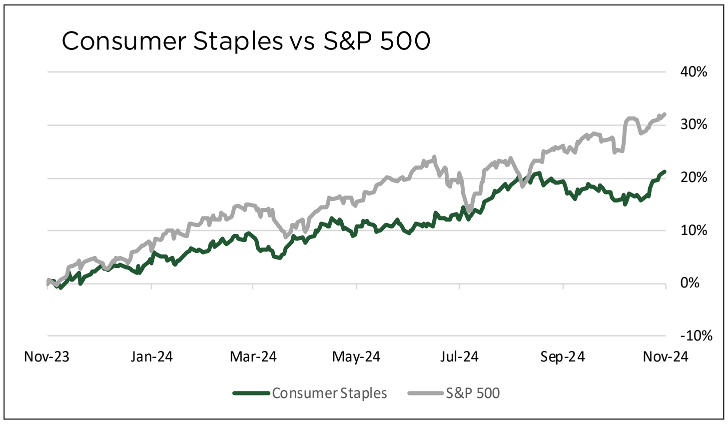
The Consumer Discretionary sector significantly outperformed the broader market in November leading all S&P 500 industry sectors for the month. The strong performance comes amidst signs of improving consumer confidence and expectations following the Presidential election. Among Consumer Discretionary subsectors, the strongest performance was posted by the Automobiles category followed by Multiline Retail while Auto Components and Leisure Products were softest. The Consumer Discretionary sector has outperformed the S&P 500 for the 1-month, 3-months, and trailing twelve-months periods while slightly underperforming year-to-date, as reflected in the accompanying chart.

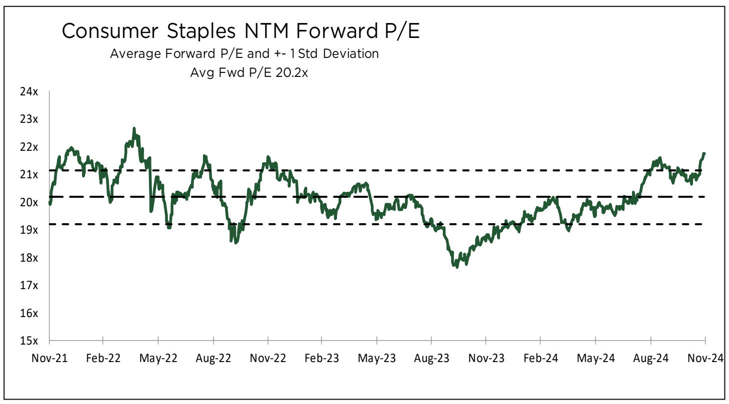
The Conference Board reported that Consumer Confidence in November jumped to a 16 month high of 111.7 from 109.6 in October. The associated expectations index also advanced reaching 92.3 which is the highest level seen since December of 2021. Meanwhile, the University of Michigan consumer sentiment index dropped from a preliminary November reading pre-election of 73.0 to 71.8 post-election. However, on a month-over-month basis consumer sentiment increased from 70.5 in October. There was a noteworthy shift in sentiment across political party lines that appeared to fuel the move for the month. In October, consumer sentiment among Republicans was 53.6 which climbed to 69.1 in November while Democrats saw sentiment decline from 91.4 to 81.3. These shifts were even more noteworthy on the consumer expectations front where Republicans saw a sharp increase from 61.4 to 89.2 while democrats saw a contraction from 93.1 to 75.4.

The Census Bureau reported that monthly retail sales grew 0.4% in October on a month-over-month basis. Electronics & appliance store sales for October were particularly strong increasing by 2.3%. Notable strength was also seen in auto sales which increased by 1.6% and in restaurant sales which grew by 0.7%. Core retail sales or sales after stripping away motor vehicle and gas sales, advanced by 0.1% for the month. The October monthly report also included a significant upward revision for the prior month with September retail sales adjusted upward to 0.8% from the initial report of 0.4%.

For the first time since July 2021, existing home sales increased on a year-over-year basis according to the National Association of Realtors. October existing home sales increased 2.9% versus the prior year and 3.4% month-over-month to an annual rate of 3.96 million. Homes available for sale continued to be on an upward trend increasing 19% versus last year with a 4.2 months supply. Listed homes averaged 29 days on the market with all cash buyers representing 27% of sales. While existing home sales trends were strong in October, new home sales were soft declining by 17.3% to an annual rate of 610,000 according to the Commerce Department. This level of sales represented the weakest since November 2022 as transactions in the South were softest appearing to have been negatively impacted by disruption linked to the two hurricanes.

CONSUMER STAPLES





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
4.55%	2.07%	18.18%	21.04%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
5.73%	6.80%	26.47%	32.06%

	Company Performance	1 Month
Leaders	Molson Coors Beverage	13.9%
	Walmart Inc	12.9%
	Costco Wholesale Corp	11.2%
	Dollar Tree Inc	10.3%
	Church & Dwight Co Inc	10.2%
Laggards	Target Corp	-11.8%
	Mondelez International	-5.2%
	Conagra Brands Inc	-4.8%
	Walgreens Boots	-4.7%
	Kraft Heinz Co/The	-4.5%

Consensus FY EPS / P/E

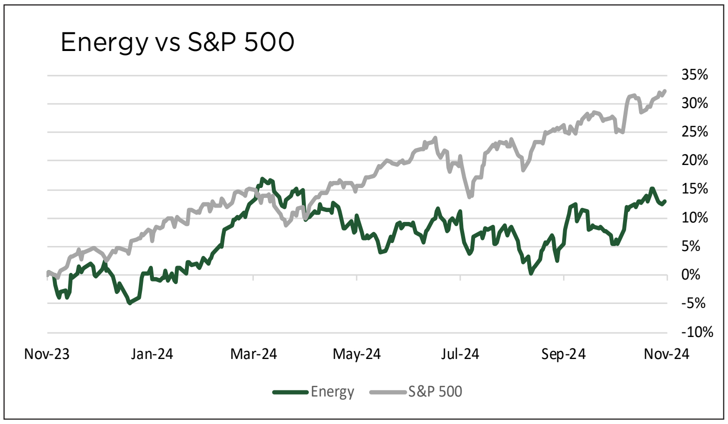
Last Year	Current Year	Next Year
$39.26	$39.71	$41.33
22.9x	22.7x	21.8x

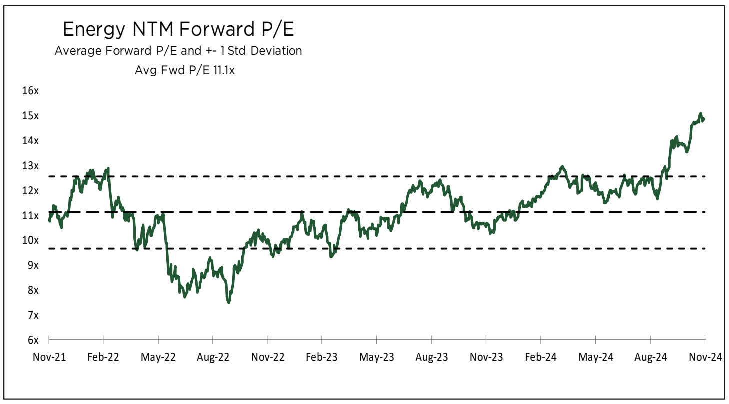
Sector Update

The Consumer Staples sector increased 4.55% on average in November and underperformed the S&P 500 Index that increased by 5.73%. The Food Retailer and Household Products segments were the strongest performing segments while Beverages and Food Products both posted small declines. With the recent news that Mr. Robert Kennedy Jr has been appointed (awaits Senate approval) to become the Secretary of the Department of Health and Human Services, shares of packaged food and beverage companies have been pressured given expected tighter positions on processed foods, artificial colors and synthetic dyes, amount of Snap payments, etc. Ingredient companies remain well positioned to work with customers to navigate potentially heightened restrictions through leveraging vast global networks and innovation strength. Enhanced uncertainty from potential tariffs is now a factor to monitor in 2025 and represents a near-term overhang particularly for beverage companies. Additional questions center on pricing, consumer consumption and level of promotional activity. It is important to note that Thanksgiving is five days later this year, so supermarket shopping is being pushed back impacting comps. YTD through November, the Consumer Staples segment rose 18.18% vs the S&P 500 that increased 26.47% The Consumer Staples segment trades with a forward P/E of 21.8x that is above its average forward P/E of 20.2x. We continue to advise a selective investment among the Consumer Staples stocks, many of which offer an attractive dividend yield, and a market weighting remains preferred.

Strong global demand, favorable volume and fixed cost absorption, and accretive product mix remain key contributors to upside delivery across the segment. Organic sales remain a leading indicator of earnings risk vs upside potential. The need for more promotional price support remains a key factor in Q4 and into 2025 as companies seek to drive volume and sales. In addition, strong company execution supports potential upside for revenue and EBITDA in FY25. The potential for a stronger dollar could become a more relevant factor. Confectionery companies face continued input cost pressures from higher cocoa costs and more moderate consumer consumption. Innovation remains critical to drive volume, retailer relations and top-line. With companies continuing to deleverage the balance sheets, the theme of potential merger and acquisitions continues. Portfolio transformation through divestments and acquisitions as well as streamlining the number of product offerings also remains a key theme.

ENERGY





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
6.28%	4.05%	13.13%	12.91%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
5.73%	6.80%	26.47%	32.06%

	Company Performance	1 Month
Leaders	Texas Pacific Land Corp	37.2%
	EQT Corp	24.4%
	Targa Resources Corp	22.4%
	ONEOK Inc	17.3%
	Baker Hughes Co	15.4%
Laggards	APA Corp	-4.0%
	Devon Energy Corp	-1.9%
	ConocoPhillips	-1.1%
	Diamondback Energy	0.5%
	Occidental Petroleum	0.9%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$49.42	$45.58	$48.77
14.7x	15.9x	14.8x

Sector Update

The Energy sector outperformed relative to the S&P 500 in November despite continuing global macroeconomic concerns and the ongoing conflict in Ukraine, while hostilities in the Middle East have deescalated slightly. Amidst this backdrop, the Oil, Gas, & Consumable Fuels subsector underperformed the Energy Equipment & Services subsector for November. Despite relative strength in November, the energy sector has underperformed the S&P 500 on a 3-months, YTD, and trailing twelve-months basis, as seen in the accompanying chart.

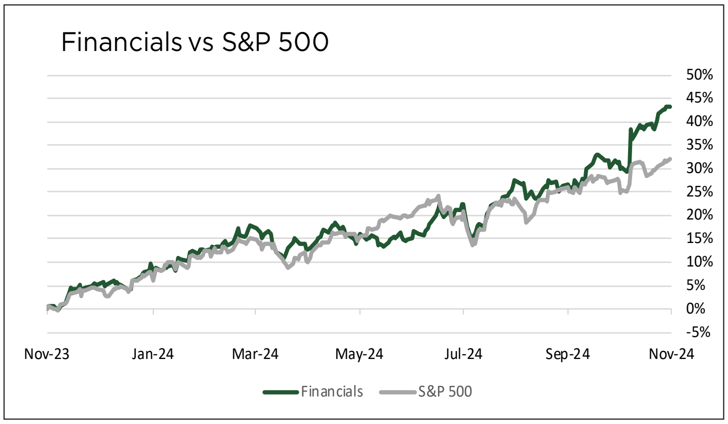
OPEC, for its fourth consecutive month, has cut its forecast for global oil demand growth this year and next in November. Now OPEC forecasts global oil demand growth to rise by 1.82 million bpd this year and 1.54 million bpd next year from 1.93 million bpd and 1.64 million bpd, respectively. Once again, China accounted for the bulk of the downgrade. The ongoing energy transition to LNG-fueled trucks, along with a slowdown in construction amid weak manufacturing activity, led to the continued weakness in diesel, pressuring forecasts. As a result of ongoing weak demand and rising supply outside of OPEC+ the cartel decided to delay unwinding voluntary output cuts for another month.

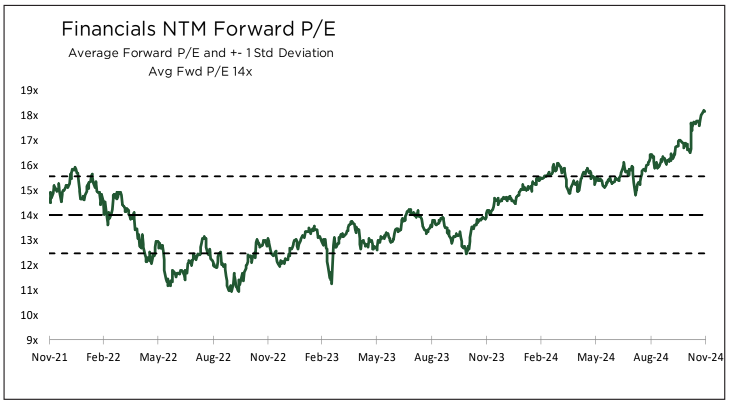
The International Energy Agency's (IEA) mid-November report slightly raised their oil demand forecast for this year to 920 k/bpd from 900 k/bpd and kept it essentially the same for next year at just shy of 1 million bpd. In their report the IEA details that "China's marked slowdown has been the main drag on demand," and that "rapid deployment of clean energy technologies is also increasingly displacing oil in transport and power generation, adding downward pressure to otherwise weak demand drivers." Next year's expected surplus presents a headwind to OPEC+, possibly pushing the unwinding of production cuts further. The United Arab Emirates (UAE) argues that it has kept its output at around 3 million bpd for too long, far below its capacity. Reuters also noted that Iraq has also been pushing for a higher quota. Many OPEC members need a price over $70 to balance their budgets and may not be able to sustain a long period of oil below $50.

West Texas Intermediate (WTI) crude oil prices moved lower to $68.00 at the end of the month from the $69.26 level seen last month. Natural gas prices increased considerably to $3.36 from $2.71 last month. Retail gasoline cooled slightly to $3.03 from the $3.20 figure seen a month ago.

The Baker Hughes oil rig count decreased slightly to 582 in November from the 587-level last month. For the week ending November 22, U.S. crude oil inventories came in at 428.4 million barrels which is ~5% below the five-year average for this time of year and compares to last month's number of 413 million barrels. Following the downturn seen during the height of the pandemic in 2020, U.S. crude oil production has been in an uptrend, which continued during 2024. The trough daily production seen in 2020 was in the 9.7 million barrels per day range and has now rebounded to a range of ~13.2 million barrels per day at the end of the month.

FINANCIALS





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
10.16%	12.22%	36.02%	43.17%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
5.73%	6.80%	26.47%	32.06%

	Company Performance	1 Month
Leaders	Discover Financial	22.9%
	Synchrony Financial	22.5%
	Assurant Inc	18.5%
	Capital One Financial	17.9%
	KKR & Co Inc	17.8%
Laggards	MarketAxess Holdings	-10.6%
	Fidelity National Info.	-4.9%
	Jack Henry & Assoc.	-3.2%
	Erie Indemnity Co	-1.8%
	Cboe Global Markets Inc	1.1%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$44.24	$44.74	$47.12
19.3x	19.0x	18.1x

Sector Update

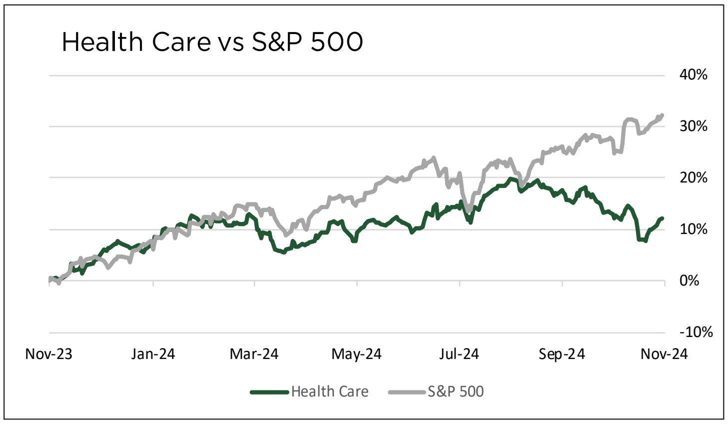
The Financials sector advanced a strong 10.2% in November and was the second-best performing sector in the month, rallying on pro-growth and regulatory roll-back optimism following the Presidential election. The sector outperformed the broader S&P 500® gain of 5.7% in November and topped market performance in the past three- and twelve-month periods as well.

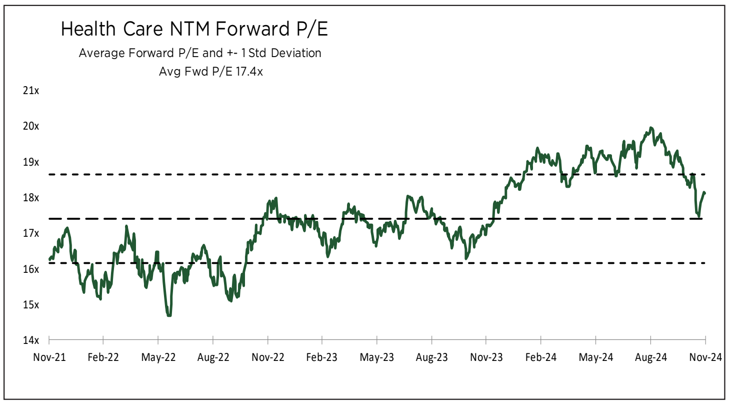
Sub-sector returns were strong in November with all Financials sub-sectors gaining in a range of 7.6% to 16.1%, led by Consumer Finance. Banks were the second-best performing sub-sector in the month, up 13.2%. Lenders were clear post-election winners as investors began discounting several potential tailwinds or policy objectives of a second Trump administration including lower regulation, a steepening yield curve, a potential rebound in capital markets activity, and potential lower corporate tax rate.

Consumer finance names, and credit card companies in particular, comprised three of the five best performing Financials stocks in November on expectations that the Trump administration could repeal new rules capping late fees as part of a broader de-regulation policy. The Consumer Financial Protection Bureau (CFPB) rules on capping late fees, now in litigation, were set to be implemented in May 2024 but have been delayed due to a Texas court injunction. Given late fees represent a mid-single digit proportion of revenues to these lenders with strong margin contribution, a potential shift in policy or repeal of the new fee rules removes a material overhang on shares.

We expect Bank (and broader Financials) performance may remain positively skewed into Q4 results in early January, particularly if the FOMC delivers an additional rate cut at its December 18th meeting and given strong performance YTD driving a limited investor appetite to take taxable gains. However, valuations among many names stand near-or-above highs seen in the past ten years against a backdrop of growing uncertainty around the trajectory of FOMC rate cuts—suggesting interest income growth into 2025 could be tempered if deposit costs remain higher than previously expected. Since election day, we note the probability of a December 18th rate cut has moved from 80% to 70%, and Fed Fund Futures are pricing a 2025 year-end overnight rate of 3.75%-4%, ~50bps above the September 2024 'dot plot' projection from the FOMC.

At period-end, the Financials Sector traded at a forward P/E ratio of 18.1x FY25 expectations, well above its three-year average forward twelve-month multiple (14x). Financials could possess solid earnings growth potential in the medium-term if loan growth improves, interest incomes benefit from a steepening yield curve, fee incomes rebound on capital markets activity picking up, and credit reserving needs decelerate; however, recent performance and valuation appear to have 'pulled forward' these expectations to a large extent.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
0.13%	-6.34%	7.76%	12.22%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
5.73%	6.80%	26.47%	32.06%

	Company Performance	1 Month
Leaders	McKesson Corp	25.6%
	Waters Corp	19.1%
	DaVita Inc	18.9%
	Insulet Corp	15.2%
	Humana Inc	15.0%
Laggards	Moderna Inc	-20.8%
	Amgen Inc	-11.6%
	Regeneron Pharma.	-10.5%
	AbbVie Inc	-10.3%
	HCA Healthcare Inc	-8.8%

Consensus FY EPS / P/E

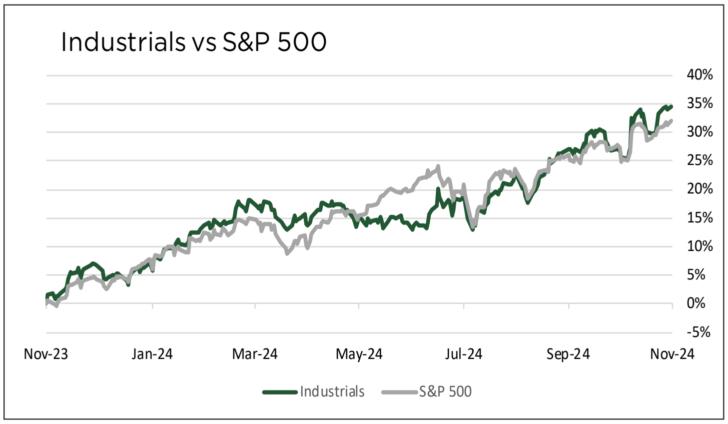
Last Year	Current Year	Next Year
$78.64	$80.72	$95.72
21.8x	21.2x	17.9x

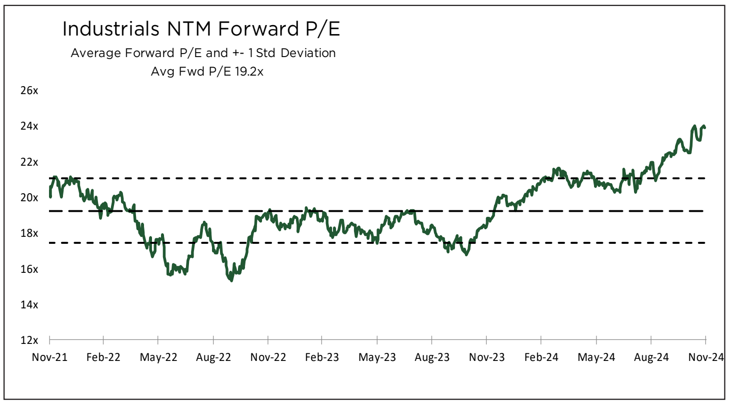
Sector Update

The Health Care sector increased by 0.13% in November, underperforming the S&P 500's 5.73% gain. The Healthcare sector has been the worst performing sector over a 1-month, 3-month, year-to-date, and trailing twelve-month time frame. A growth-tilt emerged in the market during November that likely weighed on Healthcare performance given the sector's defensive nature, although election year volatility and political pressures appear to have also impacted performance.

Following President-elect Donald Trump's election victory, Healthcare shares backed off as investors favored growth-oriented sectors. In addition, controversial healthcare policy nominations may have weighed on the sector. These nominations include Robert F. Kennedy for the Secretary of the Department of Health and Human Services (HHS), Mehmet Oz for the Head of the Center for Medicare & Medicaid Services (CMS), and Martin Makary for Food & Drug Administration Commissioner (FDA). While these nominees must receive the appropriate number of votes from the Senate before they are formally appointed, the uncertainty surrounding the policies that they may implement if appointed appears to have weighed on sentiment. Furthermore, several Health Care firms reported earnings results early in November. In general, Pharmaceutical earnings results came in mixed in November, while strong medical utilization drove decent earnings results for MedTech firms. Health Insurance firms have continued to report elevated Medical Loss Ratios, while geopolitical pressures have continued to impact Life Science & Tools companies.

The Biotechnology, Life Science Tools & Services, and Pharmaceutical subsectors reported losses in November, while the Health Care Equipment & Supplies and Health Care Providers & Services subsector reported gains. The Biotechnology subsector was the weakest performing subsector in Health Care following a 7.6% monthly decline, while Health Care Providers & Services was the strongest performing subsector following a 6.9% gain. The Health Care Equipment & Supplies subsector increased 6.9%, the Life Science Tools & Services subsector declined 0.7%, and the Pharmaceutical subsector declined 2.7%. The Health Care sector trades at a current forward P/E ratio of 21.2x, above the historical average of 17.4x.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
7.33%	9.30%	25.84%	34.46%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
5.73%	6.80%	26.47%	32.06%

	Company Performance	1 Month
Leaders	Axon Enterprise Inc	52.8%
	United Airlines Holdings	23.7%
	Copart Inc	23.2%
	Emerson Electric Co	22.5%
	Howmet Aerospace Inc	18.7%
Laggards	Amentum Holdings Inc	-18.1%
	Leidos Holdings Inc	-9.7%
	Northrop Grumman	-3.8%
	TransDigm Group Inc	-3.8%
	Stanley Black & Decker	-3.8%

Consensus FY EPS / P/E

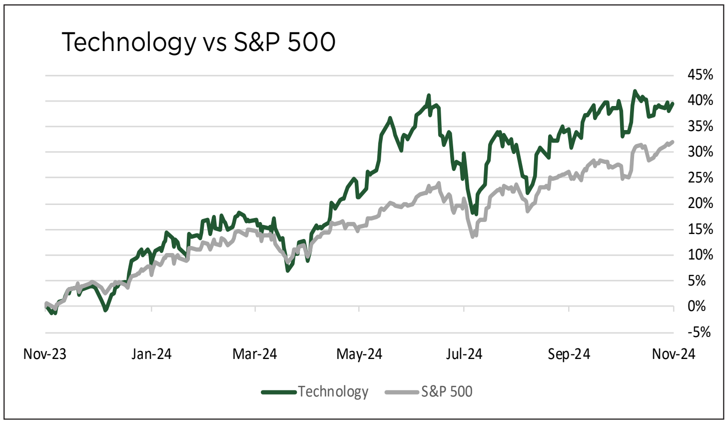
Last Year	Current Year	Next Year
$44.63	$44.52	$51.17
27.2x	27.3x	23.7x

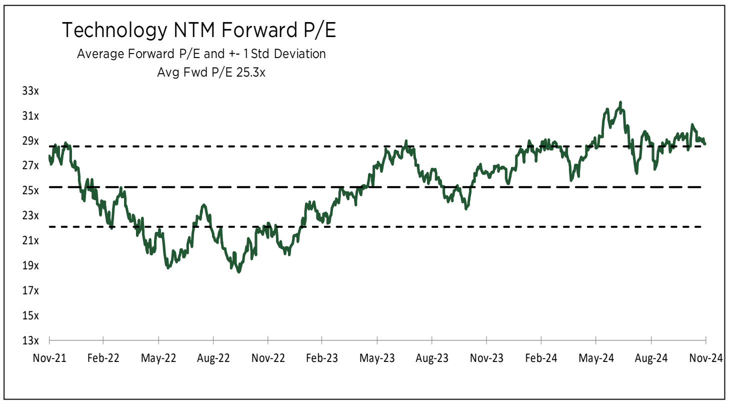
Sector Update

The Industrial Sector increased 7.33% in November, outperforming the 5.73% gain from the S&P 500. The cyclical-natured Industrials sector benefited from a strong market rally following the Presidential election, supporting positive performance from each of the 12 Industrials subsectors. The Industrials sector has outperformed the S&P 500 on a 1-month, 3-month, and 12-month period.

The Institute for Supply Management's Purchasing Managers Manufacturing Index (PMI) contracted for the eighth consecutive month in November. The overall economy continued in expansion for the 55th consecutive month after one month on contraction in 2020. The Manufacturing PMI index registered 48.4% in November, 1.9% higher compared to the 46.5% recorded in October. The New Orders Index returned to expansion, registering 50.4% - 3.3% higher than the 47.1% recorded in October. Only two of the largest six manufacturing industries expanded in October, including Food, Beverage & Tobacco Products and Computer & Electronic Products. In total, 3 manufacturing industries reported growth in October while 11 reported contractions. Lastly, the Production Index significantly declined in October. The Production Index registered a reading of 46.8%, a 0.6% increase compared to October.

Within the Industrials sector, the best performing subsectors in the month were Construction & Engineering with a 14.2% gain with an 16.9% gain and Airlines with a 14.1% gain. The worst-performing subsectors in the month were Aerospace & Defense with a 3.3% gain and Air Freight & Logistics with a 4.4% gain. The Industrial Sector is currently trading at a Forward P/E ratio of 27.3x, exceeding its three-year average of approximately 19.2x.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
4.57%	6.05%	34.19%	39.28%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
5.73%	6.80%	26.47%	32.06%

	Company Performance	1 Month
Leaders	Palantir Technologies	61.4%
	EPAM Systems Inc	29.3%
	Fortinet Inc	20.8%
	Trimble Inc	20.6%
	Fair Isaac Corp	19.2%
Laggards	Monolithic Power	-25.2%
	Enphase Energy Inc	-14.1%
	Juniper Networks Inc	-7.7%
	Microchip Technology	-7.1%
	Akamai Technologies	-7.0%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$124.56	$134.94	$160.52
36.6x	33.8x	28.4x

Sector Update

Even though four of six Technology sub-sectors outpaced the market in November, Technology lagged the market due to the lackluster performance of the Semiconductors & Semiconductor Equipment sub-sector.

The Software sub-sector (+7.4%) outperformed the market in November. Palantir, an enterprise software company, and Fortinet, a leading enterprise security software company, were among the top performing Technology stocks in November. Palantir developed a software development platform that leverages gen AI/large language models and enables companies to develop new applications that more effectively model their processes and workflows than traditional software ERP systems.

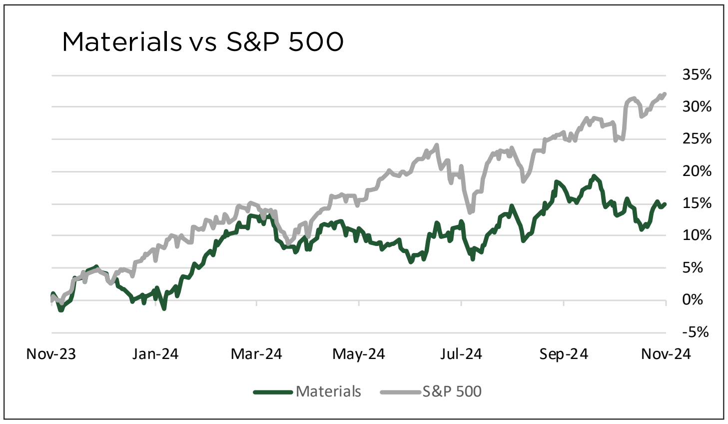
Fortinet and other leading security software companies are benefiting from corporations' increased reliance on their security platform solutions. While 75% of enterprise security leaders are pursuing a vendor consolidation strategy, Gartner estimated that less than 15% of large enterprises have implemented a security platform solution. Gartner estimated that by 2028, 45% of organizations will have implemented a security platform solution.

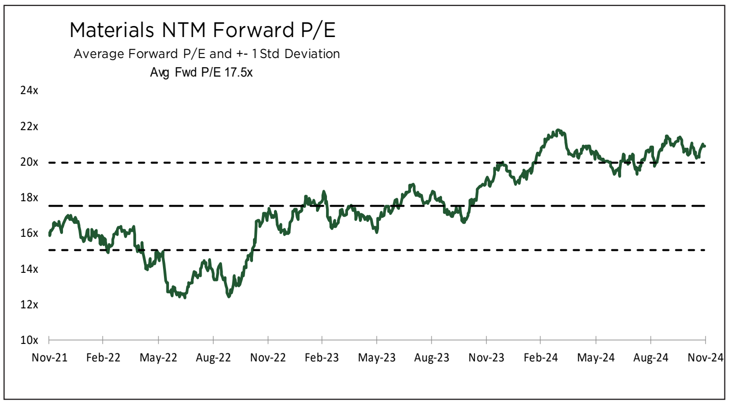
The IT Service sub-sector (+7.6%) outpaced the market in November as leading IT Services companies benefited from an increased number of large, transformative enterprise deals. Companies are increasing spending on their digital transformation so that they are ready to benefit from gen AI.

The Semiconductors & Semiconductor Equipment sub-sector (+1%) underperformed the market in November due to weak demand in the automotive and industrial markets, particularly in Europe, as well as weaker than expected PC demand. However, enterprise, government, and hyperscale cloud company demand for CPUs, GPUs, and networking and optical equipment for hyperscale computing systems for gen AI remained strong.

The Technology sector appears fully valued, with a P/E of 33.8x and 28.4x the consensus analyst FY24/FY25 EPS estimates, compared to estimated FY25 EPS growth of 19% and its average twelve-month forward P/E of 25.3x.

MATERIALS





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
1.45%	0.21%	10.19%	14.97%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
5.73%	6.80%	26.47%	32.06%

	Company Performance	1 Month
Leaders	Albemarle Corp	13.7%
	Steel Dynamics Inc	11.3%
	Sherwin-Williams Co/	10.8%
	Nucor Corp	9.1%
	CF Industries Holdings	9.0%
Laggards	Celanese Corp	-41.9%
	Dow Inc	-10.5%
	FMC Corp	-9.1%
	International Flavors & Fragrance	-8.1%
	Newmont Corp	-7.7%

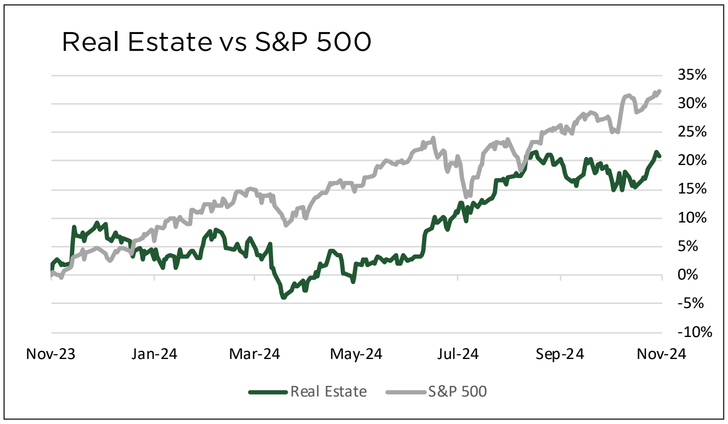
Consensus FY EPS / P/E

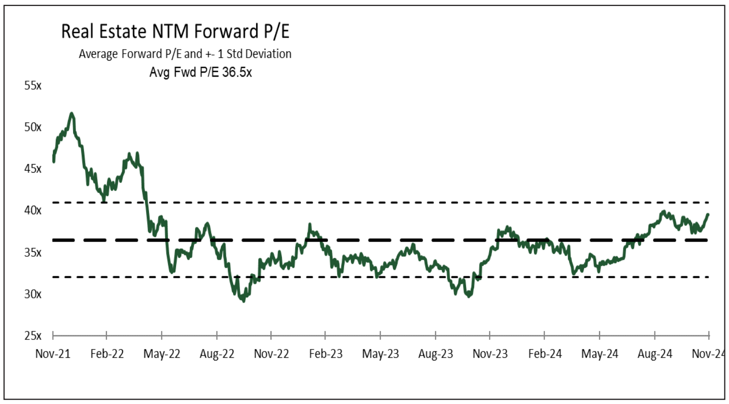
Last Year	Current Year	Next Year
$24.23	$24.68	$28.71
24.5x	24.1x	20.7x

Sector Update

The Materials segment increased 1.45% in November that compares with the S&P 500 Index which increased 5.73%. Containers and Packaging was the strongest segment rising 4.1% and reflecting expectations for higher pricing and continued favorable demand. Several containerboard and paper companies have recently announced price increases effective the beginning of January which sets a positive start for the new year. Enhanced uncertainty from potential tariffs remains a factor to monitor in 2025 and represents a near-term overhang on the group. President Elect Trump announced his plans to impose an additional 10% tariff on imported goods from China and 25% on goods from Mexico and Canada. The tariff plan raises concerns regarding additional inflationary pressures on consumers. YTD through November, the Materials segment increased 10.19% vs the S&P 500 that rose 26.47%. The Materials segment now trades with an average forward P/E of about 24.1x for the current year and 20.7x for next year and above its historical valuation range of 17.5x. Selective investment among the group remains a key factor with a preference for strong management teams, high-quality businesses and strong balance sheets.

New home sales declined by 17% for October reflecting poor weather in the South and two hurricanes. Despite additions over recent year, Freddie Mac estimates that US housing stock is 3.7 million units below needed supply by the US population. Recent volatility in mortgage rates has weighed on housing and mortgage activity. Mortgage rates increased from 2-year lows in October and have since moderated in early December. Movement in mortgage rates influence home buying activity and investor interest in the segment. As measured by the FHFA House Price Index, prices for US houses increased 0.7% in September and 4.3% vs the prior year period. Expectations remain for the Fed to target 2% inflation and to implement further rate cuts. Investors remain focused on the potential for a Fed rate cut announcement at its December 17-18 meeting. Recent updates by Chemical companies indicate slowing order books particularly in auto-related end markets. Focus in FY25 centers on consumer and end market demand, pricing, cost savings, productivity gains, currency movement, potential tariffs, interest rates and ticket sizes. With strong company balance sheets and likely lower rates, further portfolio transformation may occur including divestment of non-core assets and additions.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
3.98%	3.22%	11.97%	20.89%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
5.73%	6.80%	26.47%	32.06%

	Company Performance	1 Month
Leaders	CoStar Group Inc	11.7%
	Digital Realty Trust Inc	9.8%
	Essex Property Trust Inc	9.4%
	Invitation Homes Inc	9.0%
	Equity Residential	8.9%
Laggards	Realty Income Corp	-2.5%
	Ventas Inc	-2.2%
	American Tower Corp	-2.1%
	Healthpeak Properties	-2.0%
	SBA Communications	-1.4%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$12.83	$12.99	$13.66
22.0x	21.7x	20.6x

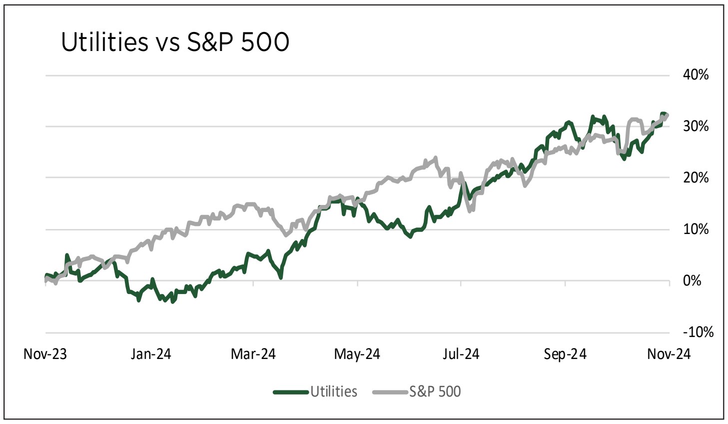
Sector Update

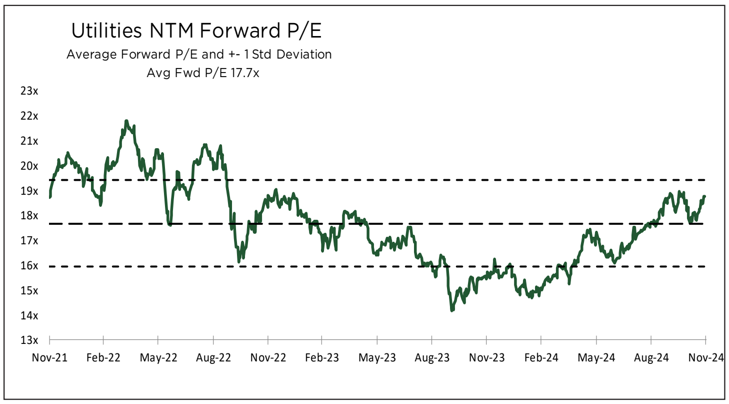
The Real Estate sector underperformed once again in November as depicted in the adjacent graphics, delivering gains of 3.98% versus the broader market (S&P 500) that achieved the strongest monthly advance of 2024 at 5.73%. We point to two factors that likely contributed to the sustained lagging performance of Real Estate. First, post the November elections in the U.S., equity markets have experienced a strong rally as fears over a contested election evaporated, while the return of president-elect Trump to the White house is viewed as being a pro-growth to investors. Still, concerns over increased deficit spending and potential new tariffs also catalyzed interest rates this autumn that were sustained into late November – weighing on valuations among bond proxy oriented investments including Real Estate.

In the meantime, 3Q2024 earnings reports from the sector had firms pointing to slowing progress on new leasing activity with reduced pricing spreads on renewals arising to maintain occupancy rates. Many firms suggested at the Nareit symposium that the outlook remains uncertain into 2025. Both Realty Income and American Tower pointed to a slowdown in the rental rate outlook that has pressured their shares. Others that had experienced recent appreciation also tended to see profit taking arise in November – notably for Ventas that reported in line results for the 3Q; increased guidance for 2024; and, reported an upswing in acquisition activity with the firm raising equity capital.

In contrast, a handful of firms reported upside revenues and FFO for the 3Q, while offering optimistic commentary looking into 2025. At Nareit, CoStar noted that improved productivity from its newer Homes.com salesforce is gaining traction. Digital Realty saw sustained strong demand for its data center business offering negotiating leverage supporting FFO growth. And, Essex Property noted that permits for construction of apartments had diminished offering enhanced prospects for absorption of excess capacity on the coastal regions of the U.S. into 2025, while the firm also has easier comps tied to weaker results reported from 2024.

We continue to view future returns for the Real Estate sector to remain closely tied to interest rates and growth prospects for the U.S. economy. Investors continue to look for the Fed to trim the funds rate from the current 4.50-4.75% range toward 3.75-4.00% by yearend 2025. However, given uncertain policy shifts with the new Trump Administration that could drive inflation expectations higher, interest rates could remain higher for longer – potentially weighing on economic activity as well as demand for bond proxy investments. Time will tell how the U.S. economy develops in 2025. In the meantime, the emerging AI trade may continue to drive data center demand sustaining gains for that group.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
3.16%	8.61%	30.07%	32.27%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
5.73%	6.80%	26.47%	32.06%

	Company Performance	1 Month
Leaders	Vistra Corp	27.9%
	NRG Energy Inc	12.4%
	Sempra	12.4%
	CenterPoint Energy Inc	10.5%
	Atmos Energy Corp	9.0%
Laggards	AES Corp/The	-20.9%
	Constellation Energy	-2.4%
	Southern Co/The	-2.1%
	Eversource Energy	-2.1%
	Dominion Energy Inc	-1.3%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$21.08	$20.59	$22.53
19.9x	20.3x	18.6x

Sector Update

Utilities gained 3.2% in November, underperforming the 5.7% advance in the broader market S&P 500® index. Still, the sector outperformed the S&P in the past 3-months and year-to-date by 1.8 and 3.6 percentage points, respectively. Interest rate action was generally supportive of positive sector performance in November on a modest pullback in longer-term yields, partially offset by a risk-on and pro-cyclical tilt in performance given outperformance in the Consumer Discretionary and Financials sectors following the Presidential election. At the same time, results of the election drove a clear bifurcation in single-stock performance within the Utilities group favoring traditional generation versus renewables.

Gas-fired and natural gas distribution utilities led sector performance in the period, comprising each of the top-five 'Leaders' in November—with a tilt toward Texas based companies. Given President Elect Trump's stance on energy policy, expectations of increasing supply and potentially lower gas prices could lower costs for the Texas Utilities that operate in a competitive market as compared to a regulated or price-controlled environment present in most states. On the other hand, Arlington, VA based AES Corp (AES) was the worst performing Utility in the period, down 20.9% in November given its broad exposure to contracted renewables that are presumed to be out of favor under the incoming administration and could face financial headwinds if renewables tax credits are repealed.

Interestingly, the 'Independent Power & Renewable' sub-sector was the best performing within the Sector, but includes just two companies, VST and AES—the best and worst performing Utilities in November by wide margins.

Despite recent election-influenced volatility, power demand is expected to remain in a multi-year upswing driving earnings growth potential well above historical averages into the next decade, and likely requires an 'all of the above' approach to generation capacity.

After robust year-to-date performance (+30%), the Utilities sector now trades at a modest premium to its historical average P/E of 17.7x. Given persistence of secular growth tailwinds, the group continues to appear reasonably valued; however, potential reacceleration of inflation on higher deficit spending and commensurate upward pressure on bond yields represents a key watch item for Utilities investors in the near- and medium-term.

ECONOMIC CALENDAR

Date	Release	For	Prior
2-Dec	S&P Global US Manufacturing PMI - Final	Nov	48.5
2-Dec	ISM Manufacturing Index	Nov	46.5%
2-Dec	Construction Spending	Oct	0.1%
3-Dec	JOLTS - Job Openings	Oct	7.372M
4-Dec	MBA Mortgage Applications Index	11/30	184K
4-Dec	ADP Employment Change	Nov	55.0
4-Dec	S&P Global US Services PMI - Final	Nov	-0.2%
4-Dec	Factory Orders	Oct	56.0%
4-Dec	ISM Non-Manufacturing Index	Nov	-1.84M
4-Dec	EIA Crude Oil Inventories	11/30	NA
4-Dec	Beige Book		NA
5-Dec	Initial Claims	11/30	215K
5-Dec	Continuing Claims	11/23	1896K
5-Dec	Trade Balance	Oct	-$83.8B
5-Dec	EIA Natural Gas Inventories	11/30	-2 bcf
6-Dec	Nonfarm Payrolls	Nov	12K
6-Dec	Nonfarm Private Payrolls	Nov	-28K
6-Dec	Avg. Hourly Earnings	Nov	0.4%
6-Dec	Unemployment Rate	Nov	4.1%
6-Dec	Average Workweek	Nov	34.3
6-Dec	Univ. of Michigan Consumer Sentiment - Prelim	Dec	71.8
6-Dec	Consumer Credit	Oct	$6.0B
9-Dec	Wholesale Inventories	Oct	-0.2%
10-Dec	Productivity-Rev.	Q3	2.2%
10-Dec	Unit Labor Costs-Rev.	Q3	1.9%
11-Dec	MBA Mortgage Applications Index	12/7	2.8%
11-Dec	CPI	Nov	0.2%
11-Dec	Core CPI	Nov	0.3%
11-Dec	EIA Crude Oil Inventories	12/7	-5.07M
11-Dec	Treasury Budget	Nov	-$257.0B
12-Dec	Initial Claims	12/7	NA
12-Dec	Continuing Claims	11/30	NA
12-Dec	PPI	Nov	0.2%
12-Dec	Core PPI	Nov	0.3%
12-Dec	EIA Natural Gas Inventories	12/7	NA
13-Dec	Export Prices ex-ag.	Nov	NA
13-Dec	Import Prices ex-oil	Nov	NA
17-Dec	Retail Sales	Nov	NA
17-Dec	Retail Sales ex-auto	Nov	NA
17-Dec	Capacity Utilization	Nov	NA
17-Dec	Industrial Production	Nov	NA
17-Dec	Business Inventories	Oct	NA

ECONOMIC CALENDAR

17-Dec	NAHB Housing Market Index	Dec	NA
18-Dec	MBA Mortgage Applications Index	12/14	NA
18-Dec	Building Permits	Nov	NA
18-Dec	Current Account Balance	Q3	NA
18-Dec	Housing Starts	Nov	NA
18-Dec	EIA Crude Oil Inventories	12/14	NA
18-Dec	FOMC Rate Decision	Dec	NA
19-Dec	Continuing Claims	12/7	NA
19-Dec	GDP - Third Estimate	Q3	NA
19-Dec	GDP Deflator- Third Estimate	Q3	NA
19-Dec	Initial Claims	12/14	NA
19-Dec	Existing Home Sales	Nov	NA
19-Dec	Leading Indicators	Nov	NA
19-Dec	EIA Natural Gas Inventories	12/14	NA
19-Dec	Net Long-Term TIC Flows	Oct	NA
20-Dec	PCE Prices	Nov	NA
20-Dec	PCE Prices - Core	Nov	NA
20-Dec	Personal Income	Nov	NA
20-Dec	Personal Spending	Nov	NA
20-Dec	Univ. of Michigan Consumer Sentiment - Final	Dec	NA
24-Dec	Durable Goods -ex transportation	Nov	NA
24-Dec	Durable Orders	Nov	NA
24-Dec	New Home Sales	Nov	NA
25-Dec	MBA Mortgage Applications Index	12/21	NA
25-Dec	EIA Crude Oil Inventories	12/21	NA
26-Dec	Continuing Claims	12/14	NA
26-Dec	Initial Claims	12/21	NA
27-Dec	Adv. Intl. Trade in goods	Nov	NA
27-Dec	Adv. Retail Inventories	Nov	NA
27-Dec	Adv. Wholesale Inventories	Nov	NA
27-Dec	EIA Natural Gas Inventories	12/21	NA

DISCLOSURES

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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

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