MARKET COMMENTARY

DAVENPORT 1863
BUILDING WEALTH TOGETHER

JANUARY 2024

- The best and worst performing S&P 500® sector in December was Real Estate and Energy, respectively
- While the corporate recession has passed, the economic recession has yet to arrive
- Investors seem to be optimistic in rate cut forecasts

Equity markets closed out December and the 2023 trading year, with all major indices solidly higher. Investor enthusiasm reflected optimism around easing inflation, the employment environment, and a strengthening U.S. economy.

With prospects improving for an easing rate cycle, the VIX Index or "fear gauge" reflected market sentiment, with the index hovering in the low teens for much of December. For the full month, the Dow Jones Industrial Average increased 4.8%, the S&P 500® index was up 4.4%, and the smaller cap-weighted Russell 2000® increased 12.1%.

Ten of the eleven sectors of the S&P 500 increased during December. Real estate was the best-performing sector for the month, which increased 8.0%, followed by the industrials sector, which was up 6.9%. The weakest performance in the month was posted by the Energy sector, which decreased by 0.2%, followed by the Utilities sector, up 1.7%. For the prior twelve months, the Information Technology sector was the best performer, with a 56.4% increase, followed by the Communication Services sector, which was up 54.3%. In comparison, the Utilities sector was the worst performer for the past twelve months, with an 10.2% decrease, followed by the Energy sector, down 4.8%.

A year ago, as we said 'good riddance' to 2022, we noted that investor anxiety was mounting as the U.S. economy showed signs of slowing; the Fed insisted it would continue to tighten until it defeated inflation; geopolitical tensions remained with war persisting in Ukraine; and COVID raged across China as leaders closed the book on their zero-COVID policy playbook. Most investors focused on the Fed's interest rate policy, questioning if extreme tightening could be taken in 2022 (funds rate moved to 4.25-4.50%) along with the FOMC's 'dot plot' pointing to further rate hikes toward 5.00-5.25% into spring 2023 would prove excessive driving potential recession. That is, although Consumer Price and Personal Consumption indices pointed to some moderation of inflation as arriving, labor markets remained extremely tight with Fed officials concerned about a possible wage-price spiral - creating worsening intermediate and longer-term economic fallout versus the pain of a near-term recession. With 2023 now in the rearview mirror, we can say that although Corporate America experienced an earnings recession, the widely anticipated economic recession never arrived in the U.S.

Investors confident of a soft landing look for significant cuts to the fed funds rate in 2024, along with double-digit S&P 500 earnings gains. In contrast to Fed governors' latest 'dot plot' anticipating three, 25 BPS, rate cuts arising in 2H2024, with the funds rate ending 2024 at roughly 4.6%, recent data from CME FedWatch indicates investors continue to anticipate six to seven rate cuts to commence with the March FOMC session driving the funds rate from the current 525-550 BPS range toward 375 BPS at yearend 2024. We sense that unless the U.S. economy shows signs of a substantive slowdown (with no recession being forecast by the FOMC today), there is no particular urgency to commence cutting the funds rate in the near term – with Fed governors reticent of positioning the U.S. economy for a resurgence of inflation nor as being politically motivated in a presidential election year. Furthermore, we continue to view consensus earnings forecasts for the S&P 500 into 2024 – targeting gains on the order of 10%-11% (as reported by Bloomberg) – as being overly optimistic.

With the S&P 500 trading at over 19.0x 2024 estimated earnings, the market is not unusually cheap, with valuations appearing a bit stretched. Although we are as happy as others to see the yearend 2023 rally, we sense that investor expectations on the earnings front and related to the fed funds rate outlook are optimistic at this juncture given global economic trends, softening anticipated in 1H2024 for the U.S. economy; along with a range of geopolitical issues. If investors become disappointed by either a higher for longer stance from the Fed or weaker than forecast S&P 500 earnings trendline, market volatility could arise in 2024.

Where to from here?

Factoring in our outlook for a weaker 1H2024 followed by an improved outlook into the 2H2024 along with declining interest rates later in 2H2024, we sense that intermediate-term opportunities exist for value investors, particularly among select health care, industrial, and energy-related issues that have all lagged in 2023, while interest rate sensitive utilities and real estate could respond positively to stabilizing and or further declines of the funds rate later in the year. That is, we anticipate improved economic trends to drive moderate economic and corporate earnings growth later in 2024 and into 2025, offering solid potential intermediate-term returns.

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MARKET AND ECONOMIC STATISTICS

Market Indices:	12/29/2023	12/30/2022	% Change YTD	11/30/2023	% Change (Monthly)
S&P Composite	4,769.83	3,839.50	24.23%	4,567.80	4.42%
Dow Jones Industrials	37,689.54	33,147.25	13.70%	35,950.89	4.84%
NASDAQ Composite	15,011.35	10,466.48	43.42%	14,226.22	5.52%
Russell 2000	2,027.07	1,761.25	15.09%	1,809.02	12.05%
FTSE 100	7,733.24	7,451.74	3.78%	7,453.75	3.75%
Shanghai Composite	2,974.94	3,089.26	-3.70%	3,029.67	-1.81%
Nikkei Stock Average	33,464.17	26,094.50	28.24%	33,486.89	-0.07%
Stoxx Europe 600	479.02	424.89	12.74%	461.61	3.77%
MSCI Emerging Markets	1,023.74	956.38	7.04%	987.10	3.71%
MSCI Emerging Markets Small Cap	1,367.16	1,127.18	21.29%	1,311.59	4.24%

Performance of S&P 500 by Industry:	% of Index as of 12/29/2023	1 Month	3 Month	Year to Date	12 Months
Consumer Discretionary	10.84%	6.07%	12.19%	41.04%	41.04%
Consumer Staples	6.25%	2.43%	4.81%	-2.16%	-2.16%
Energy	3.97%	-0.19%	-7.80%	-4.80%	-4.80%
Financials	13.02%	5.25%	13.44%	9.94%	9.94%
Health Care	12.89%	4.14%	5.94%	0.30%	0.30%
Industrials	8.82%	6.85%	12.50%	16.04%	16.04%
Information Technology	28.34%	3.79%	16.92%	56.39%	56.39%
Materials	2.41%	4.33%	9.12%	10.23%	10.23%
Communication Services	8.52%	4.78%	10.71%	54.36%	54.36%
Utilities	2.38%	1.69%	7.59%	-10.20%	-10.20%
Real Estate	2.55%	7.96%	17.66%	8.27%	8.27%
S&P 500 (Absolute performance)	100%	4.42%	11.24%	24.23%	24.23%

Interest Rates:	12/29/2023	12/30/2022	YTD Change (Basis Points)	11/30/2023	Month Change (BPS)
Fed Funds Effective Rate	5.33%	4.33%	100	5.33%	0
Prime Rate	8.50%	7.50%	100	8.50%	0
Three Month Treasury Bill	5.33%	4.40%	93	5.35%	-2
Ten Year Treasury	3.88%	3.87%	0	4.33%	-45
Spread - 10 Year vs 3 Month	-1.45%	-0.52%	-93	-1.03%	-43

Foreign Currencies:	12/29/2023	12/30/2022	% Change YTD	11/30/2023	% Change (Monthly)
Brazil Real (in US dollars)	0.21	0.19	8.9%	0.20	1.4%
British Pound (in US dollars)	1.27	1.21	5.4%	1.26	0.8%
Canadian Dollar (in US dollars)	0.76	0.74	2.3%	0.74	2.4%
Chinese Yuan (per US dollar)	7.10	6.90	2.9%	7.14	-0.5%
Euro (in US dollars)	1.10	1.07	3.1%	1.09	1.4%
Japanese Yen (per US dollar)	141.04	131.12	7.6%	148.20	-4.8%

Commodity Prices:	12/29/2023	12/30/2022	% Change YTD	11/30/2023	% Change (Monthly)
CRB (Commodity) Index	510.32	554.78	-8.0%	529.90	-3.7%
Gold (Comex spot per troy oz.)	2062.98	1824.02	13.1%	2036.41	1.3%
Oil (West Texas int. crude)	71.65	80.26	-10.7%	75.96	-5.7%
Aluminum (LME spot per metric ton)	2345.50	2349.51	-0.2%	2155.76	8.8%
Natural Gas (Futures 10,000 MMBtu)	2.51	4.48	-43.8%	2.80	-10.3%

Economic Indicators:	11/30/2023	1/31/2023	% Change YTD	10/31/2023	% Change (Monthly)
Consumer Price Index	307.9	300.5	2.5%	307.6	0.0969%
Producer Price Index	254.7	257.8	-1.2%	254.76	-0.04%
	3Q23	**2Q23**	**1Q23**	**4Q22**	**3Q22**
GDP Growth Rate (Quarterly)	4.90%	2.10%	2.20%	2.60%	2.70%
Unemployment Rate (End of Month)	**"November 3.7%"**	**"October 3.9%"**	**"September 3.8%"**	**"August 3.8%"**	**"July 3.5%"**

*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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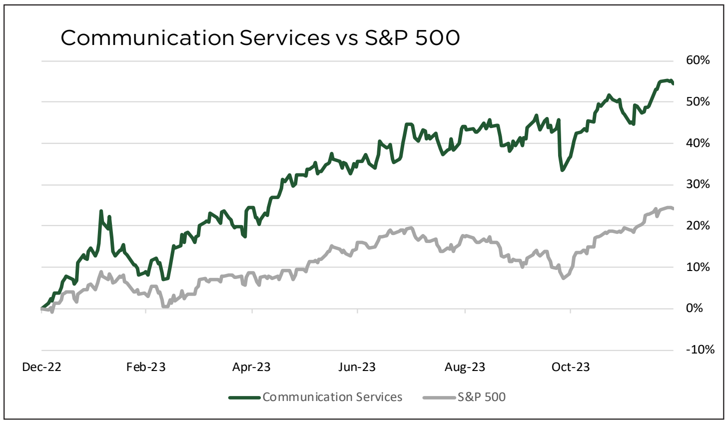
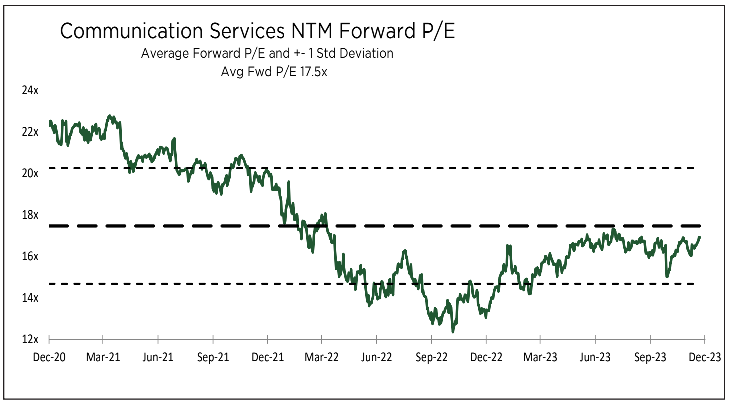
COMMUNICATIONS SERVICES





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
4.78%	10.71%	54.36%	54.36%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
4.42%	11.24%	24.23%	24.23%

	Company Performance	1 Month
Leaders	Match Group Inc	12.7%
	News Corp	11.6%
	News Corp	11.4%
	Live Nation	11.1%
	Warner Bros Discovery	8.9%
Laggards	Charter Comm. Inc	-2.9%
	Walt Disney Co/The	-2.6%
	Verizon Comm.Inc	-1.6%
	Electronic Arts Inc	-0.9%
	Fox Corp	0.0%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$11.67	$14.55	$16.49
21.1x	16.9x	14.9x

Sector Update

Communications Services (54.36%) outperformed the market in 2023 and was the second best-performing industry sector. Sector performance was driven by the Interactive Media & Services (+86.7%) and Entertainment (+32.2%) sub-sectors.

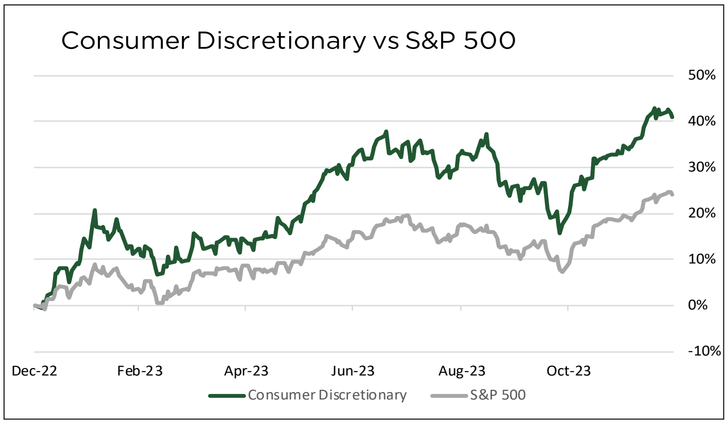
Leading Interactive & Media Services companies benefited from improved advertising demand and generative AI technology investments. Provided the U.S. economy avoids a recession in 2024, Interactive Media & Services companies could benefit from increased advertising demand. Interactive Media & Services companies with social media and search businesses were able to improve the efficacy of their advertising through the application of generative AI and could reduce their operational costs as generative AI enables more human tasks to become automated.

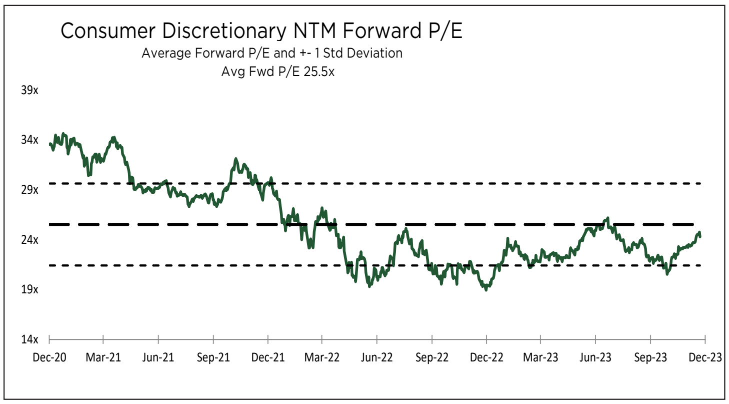
The Entertainment sub-sector benefitted from M&A in the video game sector and potential consolidation in the streaming media sector. The Walt Disney Company announced that it will purchase Comcast's one-third stake in Hulu for at least $8.6 billion, with the final purchase price determined by independent appraisals of Hulu's fair market value. Disney will launch a new app this spring, including Disney+, Hulu, and ESPN+ content. Entertainment companies' new focus on driving improved margins in their streaming media businesses could boost their earnings and free cash flow in 2024.

While the sharp rise in interest rates impacted the performance of the Diversified Telecommunications sub-sector in 2023, the sector could benefit from lower interest rates in 2024 if the U.S. Federal Reserve begins reducing interest rates. The largest U.S. telecommunications companies currently have dividend yields of 6.5%, which exceed both short and long-term U.S. Treasury interest rates.

The Communications Services sector appears attractively valued, with a P/E of 16.9x and 14.9x the consensus analyst FY24/25 EPS estimates and its average twelve-month forward P/E multiple of 17.5x.

CONSUMER DISCRETIONARY





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
6.07%	12.19%	41.04%	41.04%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
4.42%	11.24%	24.23%	24.23%

	Company Performance	1 Month
Leaders	Bath & Body Works Inc	32.3%
	Norwegian Cruise Line	31.2%
	Carnival Corp	23.1%
	Royal Caribbea	20.5%
	CarMax Inc	20.0%
Laggards	Starbucks Corp	-3.3%
	O'Reilly Automotive Inc	-3.3%
	NIKE Inc	-1.5%
	AutoZone Inc	-0.9%
	Tesla Inc	3.5%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$47.77	$57.58	$66.03
29.7x	24.6x	21.5x

Sector Update

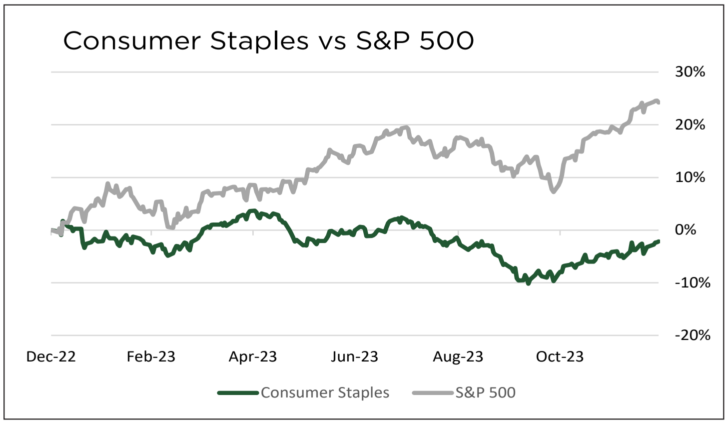
The Consumer Discretionary sector finished 2024 strongly, with the group outperforming the broader market for December. Among Consumer Discretionary sub-sectors, the strongest performance was seen in Household Durables and Leisure Products. Consumer Discretionary sub-sectors that were softest included Textiles, Apparel and Luxury Goods, and Multiline Retail. The Consumer Discretionary sector has outperformed the S&P 500 on a 1-month, 3-month, year-to-date, and trailing twelve-month basis, as seen in the accompanying chart.

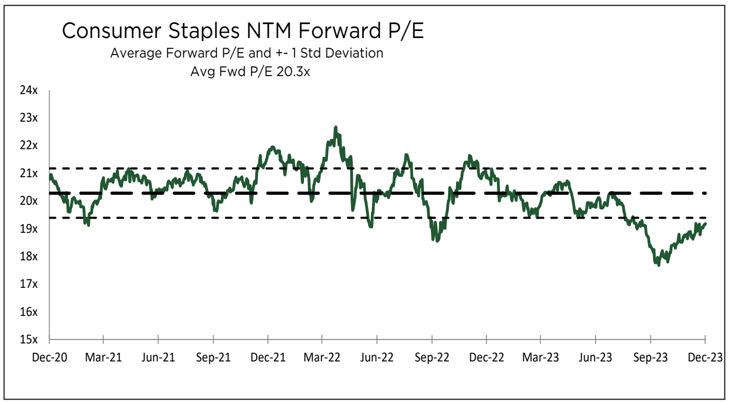
The Conference Board reported that December Consumer Confidence surged to a five-month high of 110 from November's level of 101. A combination of factors appears to have contributed to the confidence boost, including declining interest rates and gas prices against a backdrop of a climbing stock market during the month. The Chief Economist of the Conference Board commented: "December's increase in consumer confidence reflected more positive ratings of current business conditions and job availability, as well as less pessimistic views of business, labor market, and personal income prospects over the next six months." Future expectations are strengthening, with the six-month forward confidence gauge improving from 77.4 in November to 85.6 in December.

Retail sales for November were reported in mid-December and provided an encouraging early read on consumer purchasing going into the holidays. Retail sales increased 0.3% for the month, representing a solid uptick from the prior month despite the ongoing macro uncertainty. The better-than-expected result was fueled by strong internet sales as well as by growth across several consumer categories, such as clothing and furniture. Offsetting some of the broad increases was a decline at gasoline stations, reflecting lower gas prices as oil prices have pulled back from highs seen in early fall.

In an encouraging housing-related statistic, mortgage rates continued to decline in December and ended the month below 7%, extending the drop in rates for the second month. Freddie Mac's chief economist indicated, "Lower rates are bringing potential homebuyers who were previously waiting on the sidelines back into the market, and builders are already starting to feel the positive effects." More broadly, the housing market continues to be pressured by supply constraints as a lack of homes for sale constrains turnover. However, new construction spending increased 0.4% in November, representing the eleventh consecutive month of growth. Monthly private residential construction spending grew 1.1% in November, fueled by single-family project growth of 2.9%. On a year-over-year basis, total construction spending has increased by 11.3%.

CONSUMER STAPLES





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
2.43%	4.81%	-2.16%	-2.16%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
4.42%	11.24%	24.23%	24.23%

	Company Performance	1 Month
Leaders	Walgreens	30.9%
	J M Smucker Co/The	15.2%
	Dollar Tree Inc	14.9%
	Tyson Foods Inc	14.8%
	Estee Lauder Cos Inc/	14.5%
Laggards	Bunge Global SA	-8.1%
	Procter & Gamble Co	-4.5%
	Altria Group Inc	-4.0%
	Brown-Forman Corp	-2.8%
	Church & Dwight Co Inc	-2.1%

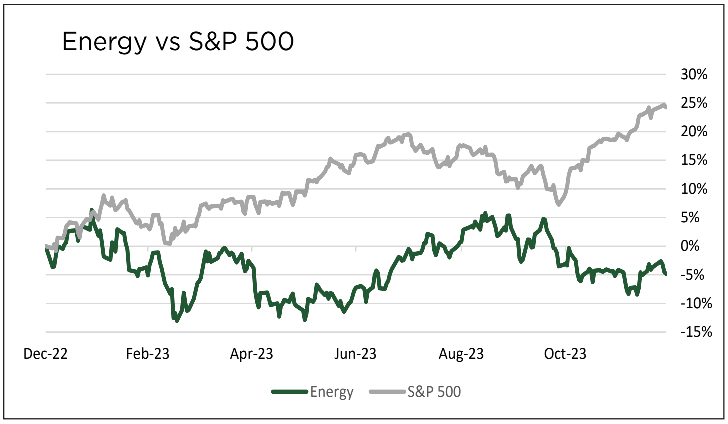
Consensus FY EPS / P/E

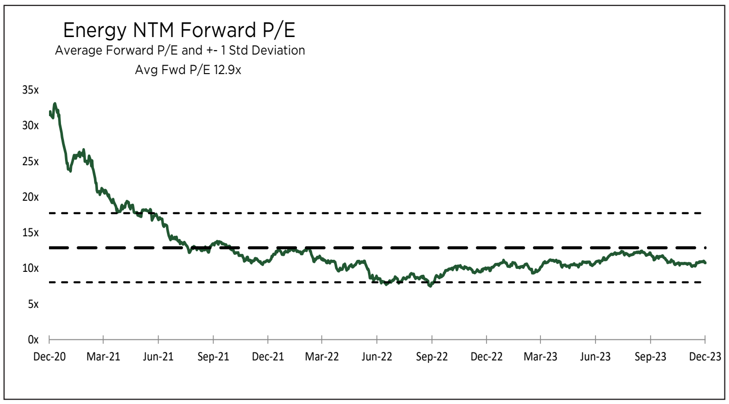
Last Year	Current Year	Next Year
$37.01	$38.82	$41.80
20.6x	19.6x	18.2x

Sector Update

The Consumer Staples sector increased by 2.43% on average in December and underperformed the S&P 500 Index, which increased by 4.42%. For 2023, the Consumer Staples sector decreased by 2.16% on average and significantly underperformed the S&P 500 Index, which increased by 24.23%. The Consumer Staples segment trades with a current forward P/E of about 18.2x, below its average forward P/E of 20.3x. Within the sector, the packaged food segment ended 2023 with a P/E valuation of about 13x and near historic low levels, setting the group up as an attractive investment option entering 2024. Volume inflection and attractive valuation could serve as a positive catalyst for renewed interest in the group, especially if promotions, price competition, and input costs remain stable. The food and beverage companies faced a difficult 2023 with decelerating pricing benefits, weak volumes, uncertainty from the rapid use of the GLP-1/diet drug, and elevated interest rates. Potential investments in 2024 in response to the GLP-1/weight loss drug include companies that sell traditional meat protein products, protein shakes, and bars or adjacent offerings such as energy drinks. Key themes in 2024 include the outlook for the global macro environment, pricing, volume, margins, consumer demand, purchase patterns, adopting the GLP-1/diet drug, innovation, retailer relations and promotion, ESG, employment rates, portfolio management, and currency movement. Historically, the Consumer Staples stocks have weakened as the New Year begins and investors reposition portfolios away from more defensive stocks. Given the attractive valuation, a market weighting in the Consumer Staples segment currently remains preferred.

Approaching first-quarter earnings updates, the focus should center on volume, continued margin recovery, moderating input cost pressures with some exceptions, consumer shopping patterns and behaviors, and an ongoing focus on realizing efficiencies and innovation. Ingredient companies continue to provide customers with solutions and innovations that appeal to consumers. Expectations for the soft drink segment are another year of solid results and in-market execution. The U.S. beer industry remains healthy heading into 2024, and companies continue to expect a rational competitive environment. Within the household and beauty channel, volume trends remain a key driver of gross margin recovery, pricing, and consumer shopping behavior. The easing lockdown restrictions in China should also support a more favorable expectation for those companies with exposure to China and the travel and leisure channel. For the household segment, consumer trade down to private labels remains a trend to monitor in 2024. The tobacco companies continue to invest in smoke-free innovation while continuing to realize pricing on core combustible brands. Portfolio transformation through divestments and acquisitions and streamlining the number of product offerings remains a key theme. Companies seek to drive top-line growth by adding faster brands to portfolios, and potential M&A remains a key theme. We continue to advise a selective investment among the Consumer Staples stocks and prefer an investment in companies with pricing, leading market share, strong balance sheets, and experienced management. An investment in many of the Consumer Staples companies continues to offer an attractive dividend yield that should gain increased attention as interest rates moderate.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
-0.19%	-7.80%	-4.80%	-4.80%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
4.42%	11.24%	24.23%	24.23%

	Company Performance	1 Month
Leaders	Chevron Corp	3.9%
	Valero Energy Corp	3.7%
	Phillips 66	3.3%
	Hess Corp	2.6%
	ONEOK Inc	2.0%
Laggards	Williams Cos Inc/The	-5.3%
	Marathon Oil Corp	-5.0%
	Targa Resources Corp	-4.0%
	EQT Corp	-3.3%
	Pioneer Natural	-2.9%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$62.10	$58.15	$61.16
10.3x	11.0x	10.5x

Sector Update

Energy-related equities faced a tough macro backdrop in December, with oil prices in retreat and geopolitical concerns weighing on investor sentiment. Against this backdrop, the Energy sector sharply underperformed the broader market in December. The Oil, Gas & Consumable Fuels subsector and the Energy Equipment & Services subsector declined in the month. The Energy sector has underperformed the S&P 500 for the 1-month, 3-months, year-to-date, and trailing twelve-month periods, as seen in the accompanying table.

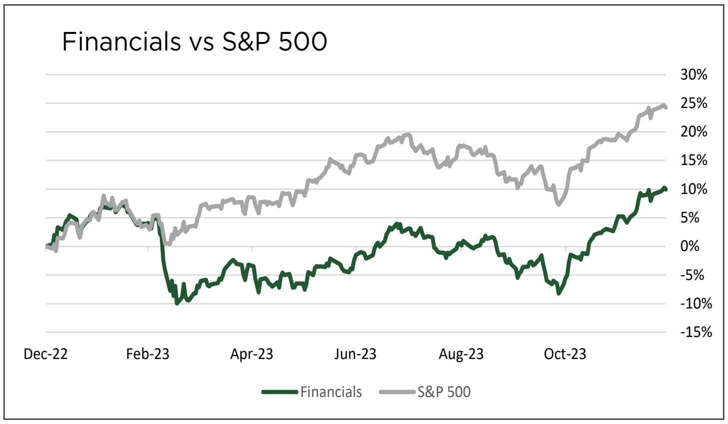
In mid-December, OPEC indicated that the group expects global oil demand in 2024 to increase by 2.2 million barrels per day against an environment of recently declining oil prices. OPEC expects growth in China and the Americas to fuel higher oil demand in 2024. OPEC leaders also indicated that misplaced concerns around oil demand growth have impeded oil market sentiment despite output cuts tracking at about 2.2 million barrels per day into the first quarter of 2024. U.S. production growth is helping fuel forecasts for non-OPEC supply growth, targeted at 1.4 million barrels per day in 2024.

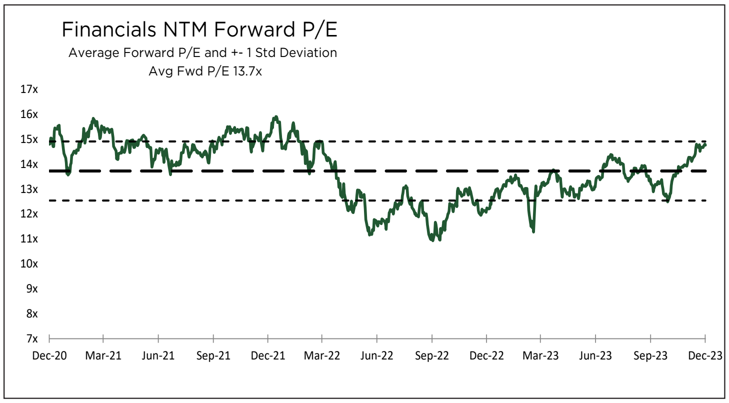
OPEC's challenges were underscored in late December when Angola decided to exit the cartel it had joined in 2007. Angola's oil minister indicated that the country "does not gain anything by remaining in the organization." We note that in November, OPEC's monthly meeting was delayed due to reported disputes around reduced production quotas for countries that included Angola.

West Texas Intermediate (WTI) crude oil prices moved lower in December, with WTI trading from the $74 per barrel range to end the month at a little more than $71 per barrel. Natural gas prices decreased from about $2.81 per million Btu to end the month at about $2.51 per million Btu. Retail gasoline prices dropped in the month, moving to $3.24 per gallon at the end of the month from the $3.36 average price seen at the prior month's end and up slightly from the prior year's level of $3.20.

The Baker Hughes oil rig count was down slightly in the month, coming in at 500 rigs versus 505 rigs last month. The oil rig count at month-end was down versus the prior year's level of 621 rigs. U.S. crude oil storage at 437 million barrels was down from last month's level of 450 million barrels. We note that storage levels have generally been declining off the 2020 pandemic highs but are currently above the prior year's level of 421 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 2023. The trough daily production seen in 2020 was in the 9.7 million barrels per day range and has now rebounded to about 13.3 million barrels per day at the end of the month.

FINANCIALS





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
5.25%	13.44%	9.94%	9.94%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
4.42%	11.24%	24.23%	24.23%

	Company Performance	1 Month
Leaders	Invesco Ltd	25.0%
	Comerica Inc	23.4%
	Zions Bancorp NA	23.1%
	MarketAxess Holdings	22.0%
	Citizens Financial Group	21.5%
Laggards	Everest Group Ltd	-13.9%
	Aon PLC	-11.4%
	Arch Capital Group Ltd	-11.3%
	Arthur J Gallagher & Co	-9.7%
	Marsh & McLennan Cos	-5.0%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$38.55	$43.27	$46.24
16.2x	14.5x	13.5x

Sector Update

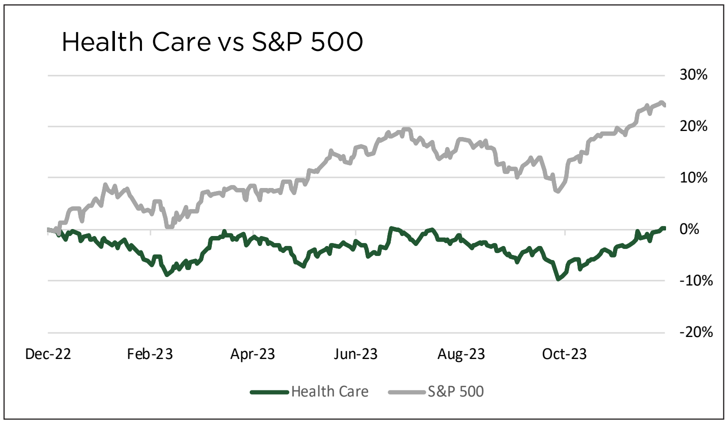
The Financials sector gained 5.25% in December, benefitting from an extended back-down in interest rates and risk-on sentiment supported by hopes of a soft-landing in the broader economy into 2024. The sector outpaced the S&P500® index advance of 4.42% in the same period. The Financials sector posted a strong 13.4% rebound in the fourth quarter, ahead of an 11.2% advance in the S&P 500; however, it underperformed the broader market by more than 14 percentage points in 2023.

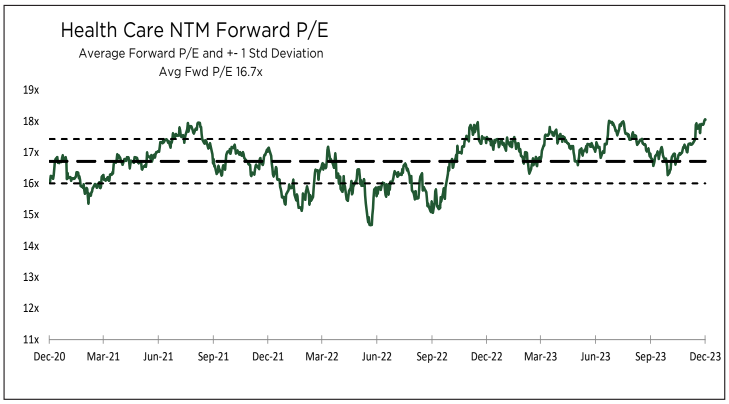
A significant back-down in rates appears to have been the primary driver of Financials (and broader market) performance for a second consecutive month. Ten, Twenty, and Thirty-year treasury rates were ~45bps lower than the prior month, with yields across the curve pulling in>100bps from the end of October on softer inflation expectations and the anticipated end of the Fed tightening cycle. Further, credit spreads tightened ~30 bps in the last two months of the year and ~64bps from the peak of bank liquidity crises in March—signaling softer perceptions of cyclical risks.

Against this backdrop, the Consumer Finance, Bank, and Capital Markets subsectors were the best performers in December. The Consumer Finance subsector gained 13.6% monthly, while banks advanced 11%. In December, the top-performing stocks among the Financials group particularly benefit from retrenchment in interest rates and higher market levels. Regional banks Comerica (CMA), Zions Bancorp (ZION), and Citizens (CFG) gained more than 20% in the month as lower rates alleviated concerns around unrealized losses in their securities portfolios and soft landing optimism reprice risk in commercial real estate exposures. Invesco (IVZ) led the sector with a 25% monthly gain, with shares reflecting a recent strong performance in US equities as higher market levels increase assets under management.

Conversely, Insurers were the worst-performing Financials subsector for a second consecutive month, down 2.4% in December. The five worst performing Financial stocks in December were Insurers. With interest rates falling across the curve, Insurers are likely to see a reduced benefit to net interest income, which has been a key to bullish views on the subsector earlier in the year.

Financials performance in 2024 will likely depend on the path and pace of Fed rate policy in returning a positive slope to the yield curve. Lower short-term rates would improve NII outlooks on reduced funding costs. Loan demand and willingness to lend remain depressed, while credit risks in consumer and CRE books remain. The financials sector trades at a forward P/E ratio of 13.5x FY24 expectations, nearly in line with its three-year average forward twelve-month multiple. Valuations in the financial sector appear fair on recent gains but require selectivity in the face of an uncertain near-term outlook.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
4.14%	5.94%	0.30%	0.30%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
4.42%	11.24%	24.23%	24.23%

	Company Performance	1 Month
Leaders	Illumina Inc	36.6%
	Align Technology Inc	28.2%
	Moderna Inc	28.0%
	Revvity Inc	23.0%
	Bio-Techne Corp	22.7%
Laggards	Cardinal Health Inc	-5.9%
	Humana Inc	-5.6%
	Pfizer Inc	-5.5%
	UnitedHealth Group Inc	-4.8%
	Elevance Health Inc	-1.7%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$68.72	$88.54	$99.03
23.1x	18.0x	16.1x

Sector Update

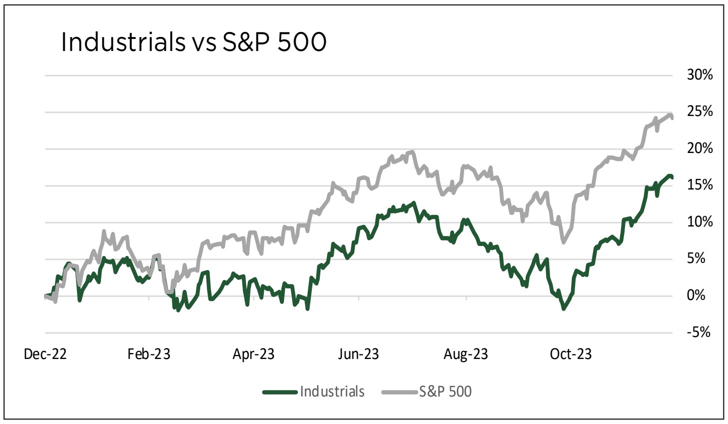
The Health Care sector rose 4.14% in December, underperforming the S&P 500's 4.42% gain. The easing of inflation and an improved employment environment spurred many investors to anticipate a less restrictive monetary policy, which helped drive the S&P 500 to yearly highs during the month. Year-to-date, the Health Care sector rose 0.3% compared to a 24.23% gain from the S&P 500, representing one of the most significant years of underperformance in the recent past.

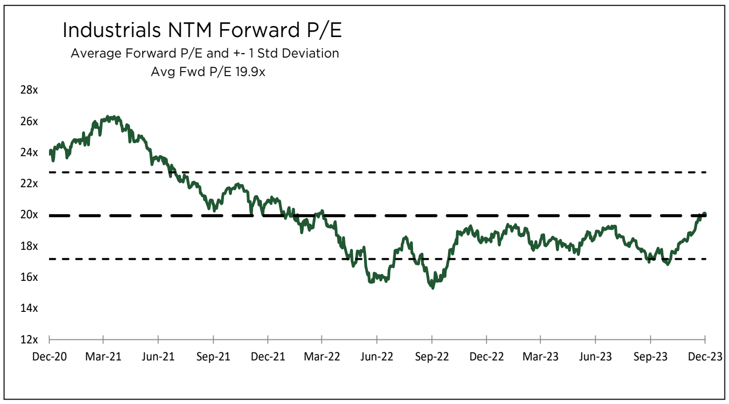
Factors that led to this underperformance included a fear that new weight-loss drugs would impact the demand for the core offerings of several healthcare care companies, along with the potential for restrictive healthcare care policies. Policy provisions that have weighed on shares throughout the year included provisions in the IRA bill to regulate drug prices, strict antitrust regulation, PBM policy discussions in Congress, and the potential cancelation of patents on certain high-expenditure drugs. Significant developments relating to Health Care policy occurred in December, including an announcement from the White House that the executive office is considering canceling patents on certain high-priced drugs created using federal research grants along with the passage of a healthcare package in the House of Representatives.

Each subsector within Health Care registered gains in December, including a 9.3% gain from Biotechnology that led the Health Care sector. A slowdown in China and a tough funding environment weighed on Biotechnology's performance throughout 2023. However, sentiment surrounding the funding environment ticked up in December as investors began to digest the potential for lower interest rates going forward. Health Care Equipment & Supplies was the next best-performing subsector within Health Care, reflecting a strong utilization environment and easing worries about GLP-1 weight loss drugs impacting MedTech demand. As illustrated in the adjacent tables, Illumina, Align, Moderna, Revvity, and Bio-Techne led the Health Care sector during December, with each stock rebounding from dramatic losses seen earlier in the year.

On the contrary, in December, Cardinal Health, Humana, Pfizer, UnitedHealth Group, and Elevance Health lagged behind the Health Care sector. Cardinal Health shares fell after reports suggested that a large customer may handle some specialty pharmacy services by themselves, while Pfizer signaled the potential for flat growth in 2024 during an investor call. Meanwhile, Humana, UnitedHealth Group, and Elevance Health declined in the month as investors began to digest the potential for a tough Medicare Advantage environment and PBM restriction. The Health Care sector trades at a forward P/E ratio of 16.1, below the historical average of 16.7.

INDUSTRIALS





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
6.85%	12.50%	16.04%	16.04%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
4.42%	11.24%	24.23%	24.23%

	Company Performance	1 Month
Leaders	Builders FirstSource Inc	24.5%
	United Rentals Inc	20.5%
	Allegion plc	19.4%
	Caterpillar Inc	17.9%
	Quanta Services Inc	14.6%
Laggards	Ceridian HCM Holding	-2.6%
	Copart Inc	-2.4%
	Paychex Inc	-2.3%
	FedEx Corp	-2.3%
	Northrop Grumman	-1.5%

Consensus FY EPS / P/E

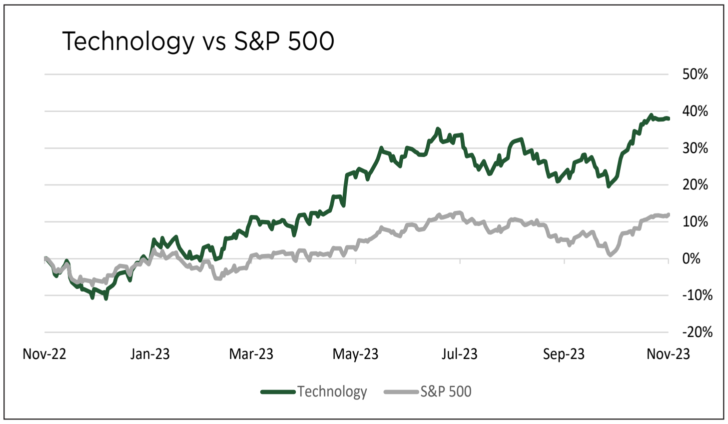
Last Year	Current Year	Next Year
$41.80	$48.32	$55.07
23.1x	20.0x	17.5x

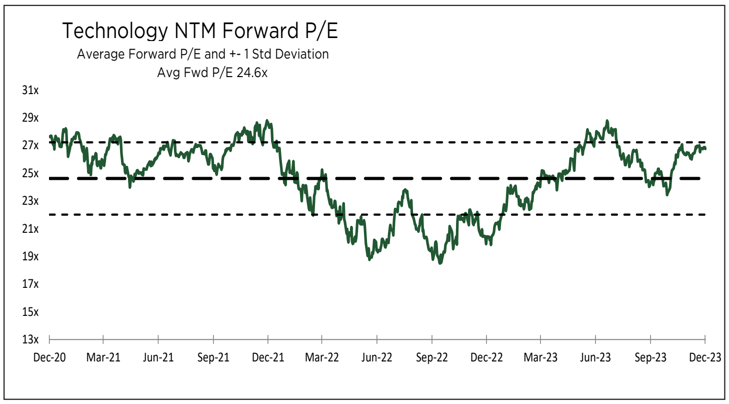
Sector Update

The Industrial Sector increased 6.85% in November, outperforming the 4.42% increase in the S&P 500 and outperformed on a 3-month basis, but underperformed on a Year-to-Date and a trailing-12-month basis. All 12 subsectors within Industrials increased in the month, with the most increase coming from Construction & Engineering, with a 14.6% increase, led by sole member Quanta Services. Quanta Services shares reached all-time highs in December, supported by a 12.5% quarterly dividend hike during the month, reflecting confidence in their base business, financial outlook, and intermediate-term prospects. This announcement came on the heels of strong financial results and a raised financial guidance reported in November. Given the sector's cyclical nature, growing expectations that the Federal Reserve's higher interest rate campaign will be finished contribute to a more positive view of industrial stocks.

The best-performing equity in the Industrial Sector was Builders FirstSource, with a 24.5% gain. Builders FirstSource benefited from falling mortgage rates in December, while confidence among U.S. home builders somewhat improved. During the month, the NAHB's housing market index, a gauge of builder confidence in the market for single-family housing, rose to 37 from 34 the previous month. The reading was better than the 36 expected by economists, according to a poll compiled by The Wall Street Journal. Additionally, 36% of builders reported cutting home prices in December, while 60% reported putting in place sales incentives of some kind. The next best-performing equity within the industrial sector was United Rentals, with a 20.5% gain. United Rental shares increased during December, supported by an increased perception by analysts that the Federal Reserve may reduce interest rates along with several price target increases. On the contrary, the worst-performing equity in the industrial sector was human capital management software company Ceridian HCM Holdings. Recent layoffs from large corporations may have weighed on earnings expectations despite an improving labor market.

The December Manufacturing PMI registered a reading of 47.4%, up 0.7% from the 46.7% recorded in November. The New Orders Index remained in contraction territory at 47.1%, 1.2% lower than the November figure of 48.5%. The Production Index reading of 50.3% represents a 1.8% increase compared to November's figure of 48.5%. The Industrial Sector is trading at a Forward P/E of 17.5x, below the sector's three-year average of about 19.9x.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
3.79%	16.92%	56.39%	56.39%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
4.42%	11.24%	24.23%	24.23%

	Company Performance	1 Month
Leaders	Enphase Energy Inc	30.8%
	ANSYS Inc	23.7%
	Advanced Micro Devic-	21.7%
	Broadcom Inc	20.6%
	Teradyne Inc	17.7%
Laggards	Oracle Corp	-9.3%
	Synopsys Inc	-5.2%
	NetApp Inc	-3.5%
	Motorola Solutions Inc	-3.0%
	VeriSign Inc	-2.9%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$93.44	$117.21	$140.47
36.4x	29.0x	24.2x

Sector Update

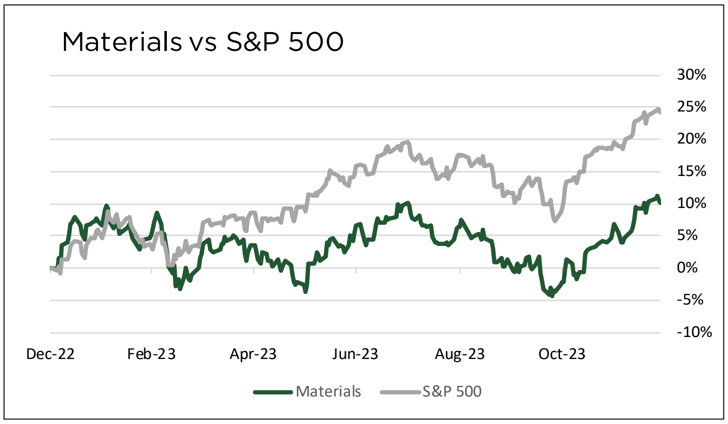
Technology (+56.3%) outperformed the market in 2023 and was the best-performing industry sector. Semiconductors & Semiconductor Capital Equipment (+97.6%) and Software (+58.2%) were the top performing Technology sub-sectors in 2023 as leading companies in both sectors benefited from generative AI technology. The Technology, Hardware, Storage & Peripherals sub-sector (+47.5%) also outperformed the market. However, the equity performance of this sub-sector was driven by P/E multiple expansion, which may not be sustained in 2024.

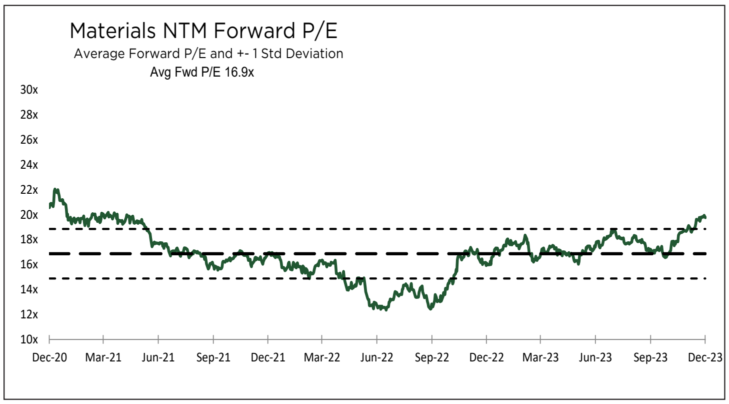
Semiconductor companies provided the CPUs, GPUs and software for the large language models that are the basis for generative AI. Software companies introduced generative AI co-pilots to enhance their content, customer service, and productivity applications. A number of leading software companies plan to charge extra for their generative AI co-pilots, which could drive increased revenue by the second half of 2024.

Deloitte estimated that corporate spending on generative AI could increase 30% year-over-year to reach $21 billion in 2024. Hyperscale cloud companies are expected to be the primary beneficiary of increased corporate spending on training large language models on their propriety corporate data and data analysis to glean insights on their operations and enhance their client-facing interactions. Demand for GPUs is expected to remain strong as hyperscale cloud companies continue to increase their capacity and adopt higher-performance GPUs. In addition, corporations could increase their purchases of GPUs to build their own on-premise large language models, and governments are funding huge supercomputers to ensure that their countries benefit from generative AI technology.

The Technology sector appears close to fairly valued, with a P/E of 29x and 24.2x the consensus analyst FY24/25 EPS estimates compared to its average twelve-month forward P/E of 24.6x.

MATERIALS





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
4.33%	9.12%	10.23%	10.23%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
4.42%	11.24%	24.23%	24.23%

	Company Performance	1 Month
Leaders	Albemarle Corp	19.1%
	FMC Corp	17.5%
	Freeport-McMoRan Inc	14.1%
	Celanese Corp	12.1%
	Sherwin-Williams Co/	11.9%
Laggards	Packaging Corp	-3.0%
	International Paper Co	-2.1%
	Steel Dynamics Inc	-0.9%
	Linde PLC	-0.7%
	Mosaic Co/The	-0.4%

Consensus FY EPS / P/E

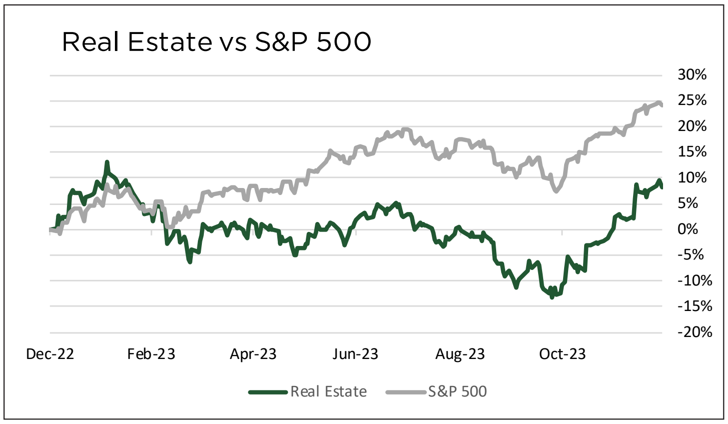
Last Year	Current Year	Next Year
$27.23	$27.78	$31.46
19.8x	19.4x	17.2x

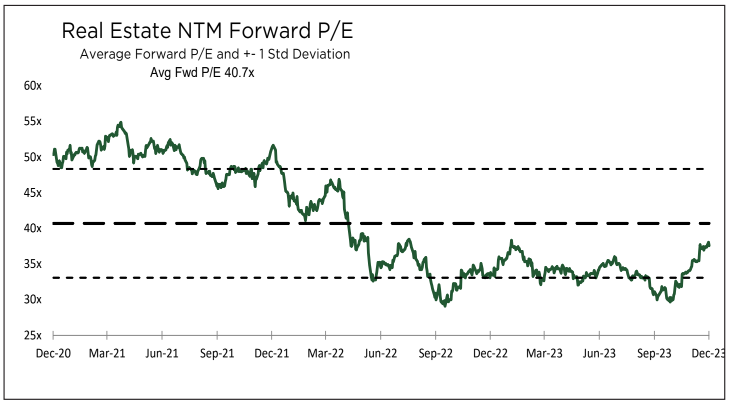
Sector Update

The Materials segment increased by 4.33% in December and slightly underperformed the S&P 500 Index, which increased by 4.42%. All segments reported increases for the month, with the greatest gain in the Construction Materials segment, reflecting a moderating in interest rates towards year-end. For 2023, the Materials segment increased by 10.23% and well underperformed the S&P 500 Index, which increased by 24.23%. The Materials segment trades with a forward P/E of 17.2x and an average forward P/E of 16.9x. For 2024, key factors to monitor include the outlook for the macroeconomic environment, interest rate trends, consumer behavior, confidence trends, realized pricing, capital spending, volume, and inventory levels. Earnings growth is forecast to accelerate in 2024 vs 2023 as execution and managing input costs remain critical factors. The companies should realize strengthening margins as input costs moderate. Selective investment among the group remains a key factor, with a preference for strong management teams and high-quality businesses. Preferred areas for potential investment include hydrocarbon, coatings, and lithium.

Despite mortgage rates in the 8% range in 2023, home prices continued to rise in 2023 on tighter inventory and forced consumer purchases. With the 10-year yield down 75bps during the past month, the backdrop is increasingly more favorable for the homebuilding stocks to expand P/E multiples over the next several years. Housing companies have already begun attracting interest with stronger balance sheets, cash flow, and their transition to more land-light business models. Approaching Q1 results for the building segment, key focuses center on the interest rate environment, remodeling demand, pricing, and the pace of new home starts. As consumers face increasing economic headwinds and housing turnover remains low, the trends weigh on the expected pace for remodel activity in 2024. On the positive side, higher home values and equity combined with low existing mortgage rates and moderate housing turnover should stimulate a resurgence in remodeling activity in the next 12-18 months. An investment in repair and remodel companies remains attractive as consumers with low fixed mortgage rates increasingly lack incentive to move. For FY24, housing starts are forecast to be relatively flat vs 2023, with expected gains for single families offset by expected declines for multifamily. Existing home sales are forecast to rise in 2024 with stronger 2H vs 1H. Pricing is forecasted to go up low-single digits vs a high-single-digit increase in 2023. The lithium sector has faced price deflation, IRA concerns, inventory destocking, especially for packaging, declining EV demand and sentiment, and an increasingly uncertain supply/demand balance. Rebuilding positive sentiment towards lithium and EV demand and movement towards greater confidence in the outlook could provide positive catalysts in the New Year. Copper prices trade higher given tight supply and continued higher demand driven by the movement towards renewable energy. The chemical segment reported a solid 2023, largely reflecting pro-cyclical sentiment. For 2024, the outlook for chemical stocks is for a stronger 2H vs 1H, reflecting demand, utilization rates, and margin expected trends. Key themes include demand, the outlook for China, pricing, customer inventory destocking, and margin recovery.

REAL ESTATE





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
7.96%	17.66%	8.27%	8.27%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
4.42%	11.24%	24.23%	24.23%

	Company Performance	1 Month
Leaders	Boston Properties Inc	23.3%
	Extra Space Storage Inc	23.2%
	CBRE Group Inc	17.9%
	Public Storage	17.9%
	Essex Property Trust Inc	16.2%
Laggards	Digital Realty Trust Inc	-3.0%
	Crown Castle Inc	-1.8%
	Equinix Inc	-1.2%
	Welltower Inc	1.2%
	Invitation Homes Inc	2.2%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$5.79	$6.67	$7.44
43.4x	37.7x	33.8x

Sector Update

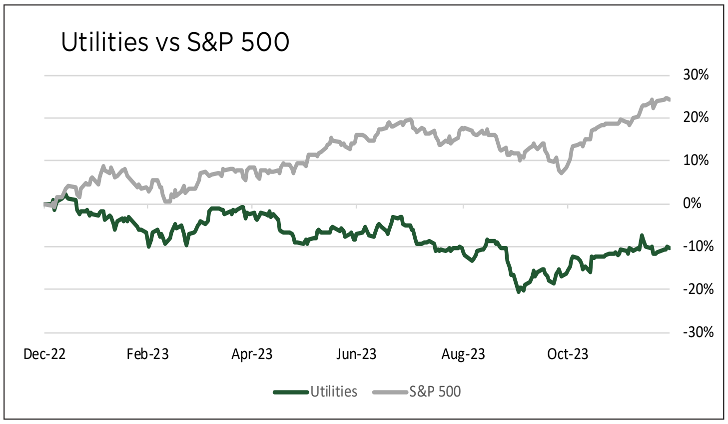
Post recent FOMC sessions, signs of slowing inflation had investors anticipating the Fed has finished with its rate hiking cycle, with expectations of significant rate cuts to follow. At the end of 2023, CME FedWatch pointed to investors expecting the funds rate to move to about 375 BPS at the end of 2024 from the existing range of 525-550 BPS. Not surprisingly, as illustrated in the adjacent graphics, the shift of investor sentiment/expectations drove a strong yearend market rally as interest rates retrenched – with the 10-year Benchmark rate that breached 5% in late October, closing the year at 3.88%. Interest rate proxy issues – led by real estate - responded with a sharp rally in the 4Q2023, leading all S&P sectors to rise by 7.96% for December versus the broad market gain of 4.42%. After lagging the broad market for an extended period over the past year, real estate performance has rebounded, with the outlook for 2024 improving for investors. Still, this sector has a long way to go to close the performance gap relative to the S&P 500 as Real Estate recorded a gain of 8.27% in all of 2023 that badly lagged that achieved by the S&P 500 up 24.23%.

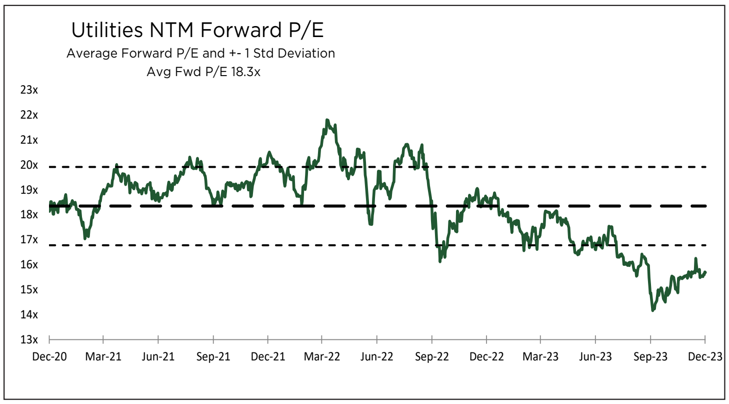
However, after experiencing dramatic moves higher (of 20-35% respectively) in November, shares of Digital Realty and Equinix in the data center segment, along with Crown Castle in the cell tower arena, all leveled off with a bit of profit-taking seeing shares dip 1-3% in December. Still, data center fundamentals remain solid for the intermediate term, supported by emerging AI demand, while absorption of newly developed sector industry capacity is trending up. Near-term valuations reflect the good news and excitement over AI, with investors needing to take an intermediate/longer-term outlook for positions today. Likewise, for Crown Castle, churn following the Sprint/T Mobile remains a bit of an overhang for the firm, while a slowdown in the 5G cycle has arrived, likely to influence 2024 revenue prospects, possibly weighing on dividend growth trends this year – requiring an intermediate-term investment time horizon for investment.

In contrast, prospects for lower interest rates have improved prospects for office space REITs – potentially fueling increased transaction volume while facilitating mortgage refinancings that aid in property valuations. Still, the office segment faces uncertainty over tenant demand influencing leasing rates, with segment issues continuing to trade at discounts to the REIT sector. However, after languishing, Boston Properties, known for its peer-leading valuation multiple and solid property performance, gained investor interest that saw the shares rebound sharply by 23% in December. Likewise, with prospects for a 'soft landing' for the U.S. economy on the rise, the operating environment for warehouses, housing, and self-storage is perceived as on the rise. Add in synergies from its 2023 acquisition of Life Storage and Extra Space Storage ramped by 23% in December. Similar dynamics helped fuel gains for self-storage play Public Storage and blue chip commercial real estate play CBRE Group last month.

Given the mixed U.S. economic outlook that exists into 2024, along with the recent rebound for the REIT sector, selectivity remains the name of the game for Real Estate investment in 2024, with better growth potential persisting for the Data Center and Cell Tower segments.

UTILITIES





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
1.69%	7.59%	-10.20%	-10.20%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
4.42%	11.24%	24.23%	24.23%

	Company Performance	1 Month
Leaders	AES Corp/The	11.9%
	NRG Energy Inc	8.1%
	Edison International	6.7%
	DTE Energy Co	5.9%
	Duke Energy Corp	5.2%
Laggards	Exelon Corp	-6.8%
	Ameren Corp	-6.8%
	Pinnacle West Capital	-4.1%
	Constellation Energy	-3.4%
	Public Service Ent.	-2.1%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$18.23	$20.32	$21.82
17.7x	15.8x	14.8x

Sector Update

The utilities sector gained 1.7% in December but lagged the 4.4% advance in the broader market S&P 500® index. While the group remains a beneficiary of lower interest rates, risk-on sentiment backed by growing expectations of a soft landing in the US economy appeared to benefit high-beta cyclicals and the broader market to a greater extent. The Utilities group was the worst-performing Sector in the S&P in 2024. Elevated interest rates and resilient economic activity proved to be a 'double-whammy' for the Sector. It remains the case that alternative interest-bearing investments in the bond market provide reasonable alternatives to 'bond proxy' equities compared to the past ~15 years, and the realization of a soft landing could push off a defensive rotation toward the Sector.

Despite relative weakness in the Sector, a handful of utilities outperformed the S&P in the month, with the top five gainers up in a range of 5.2% to 11.9%. AES was the top-performing Utility in December, largely benefitting from the extended back-down in interest rates. Duke Energy (DUK) of North Carolina was among the top five best performers in the Sector after receiving an increase in multi-year base rates from the NC state regulator.

While interest rate direction and macro uncertainty are likely to be primary drivers of Utility performance in 2024, the Sector continues to appear well-positioned for above-trend earnings growth on a multi-year basis, given significant visibility into long-term capex cycles around transmission and distribution modernization in addition to renewable energy projects supported by regulators.

The Utilities sector appears attractively valued relative to its historical trend as the group trades nearly two standard deviations below its three-year average forward earnings multiple of 18.3x. While Utilities 'bounced from the mat' on a two-month pullback in rates to close 2023, the Sector remains a beneficiary of lower rates and could see a dramatic improvement in performance in 2024 if soft landing optimism proves to be optimistic.

Given attractive valuation, yield, and defensive characteristics—we see an opportunity for new investment in the utility sector at this juncture.

ECONOMIC CALENDAR

Date	Release	For	Prior
5-Jan	Nonfarm Payrolls	Dec	173K
5-Jan	Nonfarm Private Payrolls	Dec	136K
5-Jan	Unemployment Rate	Dec	3.7%
5-Jan	Avg. Hourly Earnings	Dec	0.4%
5-Jan	Average Workweek	Dec	34.4%
5-Jan	Factory Orders	Nov	-3.4%
5-Jan	ISM Non-Manufacturing PMI	Dec	52.7
8-Jan	Consumer Credit	Nov	$5.2B
9-Jan	Trade Balance	Nov	-$64.3B
10-Jan	MBA Mortgage Applications Index	1/6	-9.4%
10-Jan	Wholesale Inventories	Nov	-0.4%
10-Jan	EIA Crude Oil Inventories	1/6	-5.50M
11-Jan	CPI	Dec	0.1%
11-Jan	Core CPI	Dec	0.3%
11-Jan	Initial Claims	1/6	202K
11-Jan	Continuing Claims	12/30	1855K
11-Jan	EIA Natural Gas Inventories	1/6	-14bcf
11-Jan	Treasury Budget	Dec	-$314.0B
12-Jan	PPI	Dec	0.0%
12-Jan	Core PPI	Dec	0.0%
17-Jan	MBA Mortgage Applications Index	1/13	NA
17-Jan	Retail Sales	Dec	0.3%
17-Jan	Retail Sales ex-auto	Dec	0.2%
17-Jan	Export Prices	Dec	-0.9%
17-Jan	Export Prices ex-eg.	Dec	-1.0%
17-Jan	Import Prices	Dec	-0.4%
17-Jan	Import Prices ex-oil	Dec	0.2%
17-Jan	Industrial Production	Dec	0.2%
17-Jan	Capacity Utilization	Dec	78.8%
17-Jan	Business Inventories	Nov	NA
17-Jan	NAHB Housing Market Index	Jan	37.0%
18-Jan	Initial Claims	1/13	NA
18-Jan	Continuing Claims	1/6	NA
18-Jan	Housing Starts	Dec	1560K
18-Jan	Building Permits	Dec	1460K
18-Jan	EIA Natural Gas Inventories	1/13	NA
18-Jan	EIA Crude Oil Inventories	1/13	NA
19-Jan	Existing Home Sales	Dec	3.82M
19-Jan	Univ. of Michigan Consumer Sentiment - Prelim	Jan	69.7
19-Jan	Net Long-Term TIC Flows	Nov	$3.3B
22-Jan	Leading Economic Index	Dec	-0.5%
24-Jan	MBA Mortgage Applications Index	1/20	NA

ECONOMIC CALENDAR

24-Jan	EIA Crude Oil Inventories	1/20	NA
25-Jan	Adv. Intl. Trade in Goods	Dec	NA
25-Jan	Adv. Retail Inventories	Dec	NA
25-Jan	Adv. Wholesale Inventories	Dec	NA
25-Jan	Initial Claims	1/20	NA
25-Jan	Continuing Claims	1/13	NA
25-Jan	Durable Orders	Dec	5.4%
25-Jan	Durable Goods -ex transportation	Dec	0.5%
25-Jan	GDP-Adv.	Q4	4.9%
25-Jan	Chain Deflator-Adv.	Q4	3.3%
25-Jan	New Home Sales	Dec	590K
25-Jan	EIA Natural Gas Inventories	1/20	NA
26-Jan	Personal Income	Dec	0.4%
26-Jan	Personal Spending	Dec	0.2%
26-Jan	PCE Prices	Dec	-0.1%
26-Jan	PCE Prices - Core	Dec	0.1%
26-Jan	Pending Home Sales	Dec	NA
30-Jan	FHFA Housing Price Index	Nov	NA
30-Jan	S&P Case-Shiller Home Price Index	Jan	NA
30-Jan	Consumer Confidence	Jan	NA
31-Jan	MBA Mortgage Applications Index	1/27	NA
31-Jan	ADP Employment Change	Jan	NA
31-Jan	Employment Cost Index	Q4	NA
31-Jan	EIA Crude Oil Inventories	1/27	NA
31-Jan	FOMC Rate Decision	Jan	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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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.

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