MARKET COMMENTARY

DAVENPORT 1863
BUILDING WEALTH TOGETHER

JULY 2023

- The best performing S&P 500® sector in June was Consumer Discretionary
- The recent challenges in the banking sector appear to be moving further into the rearview mirror
- We anticipate that the relatively narow gains in the market should further broaden out in 2024

Equity markets surged higher in June finishing off a strong first half of 2023 with the NASDAQ posting the best performance in forty years. Although technology stocks continued to pace the broader market, breadth increased with market leadership rotating to other sectors. Against this bullish backdrop, the VIX Index or "fear gauge" which started the month at a little under 18 closed the month under 14 suggesting investor complacency could be high. For the full month, the Dow Jones Industrial Average increased 4.6%, the S&P 500 index was up 6.5%, and the smaller cap weighted Russell 2000® increased 8.0%.

The best performing S&P 500 sector in June was Consumer Discretionary which increased 12.0% and was followed by the Industrials sector which was up 11.2%. The weakest performance in the month was posted by the Utilities sector which increased by 1.5% followed by the Communication Services sector which was up 2.6%. For the prior twelve month period, the Information Technology sector was the best performer with a 38.8% increase followed by the Consumer Discretionary sector which was up 23.5%, while the Real Estate sector was the worst performer for the past twelve months with a 7.5% decrease followed by the Utilities sector which was down 6.6%.

The release of June's FOMC minutes in early July revealed that although the committee ultimately decided to leave interest rates unchanged, some members supported raising rates. Those in favor of raising the Fed Funds rate cited a stronger than anticipated economy, a very tight labor market, and lack of signals that inflation was returning to the Fed's 2% goal. Others believed that more time was needed to ascertain the effects of the fastest rate tightening cycle since the 1980s. For the future, almost all members thought further rate hikes in 2023 "would be appropriate." According to CME FedWatch, investors currently expect a 93% chance of a 25bps increase on July 26 to a target rate of 525bps - 550bps. The Fed still predicts a mild recession later this year but also acknowledges that a soft landing without recession is almost as likely.

The Labor Department jobs report for June indicated that only 209k jobs were added to nonfarm payrolls, beneath the consensus expectation of 225k per Bloomberg and last month's revised addition of 306k jobs. The changes in nonfarm payrolls for April and May were revised down by 77k and 33k respectively, meaning that employment in those two months was 110k lower than previously reported. These slowing jobs statistics could help to reassure the Fed that increased rates have helped to temper the strong job market. On the other hand, average hourly earnings for June increased 0.4% month-over-month and 4.4% year-over-year, which were higher than the consensus estimates of 0.3% and 4.2% respectively. Furthermore, average hourly earnings for May were upwardly revised to 0.4% from 0.3%. The unemployment rate did not change much, decreasing as expected to 3.6% from 3.7%.

The recent challenges in the banking sector appear to be moving further into the rearview mirror after the release of encouraging annual stress test results. After all 23 banks tested passed the Fed's stress test for this year, most of the large banks announced increased dividends, including all eight U.S. global systemically important banks. Regional banks, which generally passed the stress test by slimmer margins than the larger banks, did not announce any plans for dividend increases. Although dividend increases can represent higher returns of capital to shareholders, we note that bank managements appear to largely remain conservative in dividend policy likely due to uncertainty and potentially higher capital requirements in the future.

Where to from here?

While we note significant economic uncertainty remains, we think that Corporate America will reverse the current earnings recession and return to growth in 2024 with many quality stocks trading at reasonable valuations for patient investors. We anticipate that the relatively narrow gains in the market, which have been led by a few mega cap technology companies, should further broaden out in 2024 as the economic outlook improves. Selectivity remains essential for stocks, and fixed income alternatives offer attractive short-term returns. We view favorably equities possessing less exposure to interest rates and offering specialized goods/services that will remain in demand, and we note the possibility of these factors driving greater pricing power, sustained earnings growth, and solid free cash flow generation that should result in appreciation over the intermediate and longer term.

DAVENPORT EQUITY RESEARCH

Ann H. Gurkin
(804) 780-2166
agurkin@investdavenport.com

F. Drake Johnstone
(804) 780-2091
djohnstone@investdavenport.com

Jeff Omohundro, CFA
(804) 780-2170
jomohundro@investdavenport.com

Joel M. Ray, CFA
(804) 780-2067
jray@investdavenport.com

Evan J. Gilbert, CFA
(804) 915-2749
egilbert@investdavenport.com

Justin Corlett
(804) 780-2099
jcorlett@investdavenport.com

One James Center
901 East Cary Street, Suite 1100
Richmond, VA 23219
(804) 780-2000

Davenport & Company LLC
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MARKET AND ECONOMIC STATISTICS

Market Indices:	6/30/2023	12/30/2022	% Change YTD	5/31/2023	% Change (Monthly)
S&P Composite	4,450.38	3,839.50	15.91%	4,179.83	6.47%
Dow Jones Industrials	34,407.60	33,147.25	3.80%	32,908.27	4.56%
NASDAQ Composite	13,787.92	10,466.48	31.73%	12,935.29	6.59%
Russell 2000	1,888.73	1,761.25	7.24%	1,749.65	7.95%
FTSE 100	7,531.53	7,451.74	1.07%	7,446.14	1.15%
Shanghai Composite	3,202.06	3,089.26	3.65%	3,204.56	-0.08%
Nikkei Stock Average	33,189.04	26,094.50	27.19%	30,887.88	7.45%
Stoxx Europe 600	461.93	424.89	8.72%	451.76	2.25%
MSCI Emerging Markets	989.48	956.38	3.46%	958.53	3.23%
MSCI Emerging Markets Small Cap	1,231.82	1,127.18	9.28%	1,182.51	4.17%

Performance of S&P 500 by Industry:	% of Index as of 12/30/22	1 Month	3 Month	Year to Date	12 Months
Consumer Discretionary	10.76%	11.99%	14.31%	32.33%	23.45%
Consumer Staples	6.71%	2.87%	-0.20%	-0.04%	3.84%
Energy	4.12%	6.47%	-1.79%	-7.26%	14.15%
Financials	12.47%	6.53%	4.83%	-1.51%	7.22%
Health Care	13.30%	4.19%	2.51%	-2.33%	3.63%
Industrials	8.49%	11.17%	6.01%	9.22%	22.98%
Information Technology	28.15%	6.55%	16.93%	42.06%	38.82%
Materials	2.50%	10.81%	2.76%	6.61%	12.69%
Communication Services	8.40%	2.57%	12.82%	35.58%	16.15%
Utilities	2.59%	1.47%	-3.26%	-7.16%	-6.63%
Real Estate	2.51%	4.83%	0.81%	1.85%	-7.47%
S&P 500 (Absolute performance)	100.0%	6.47%	8.30%	15.91%	17.57%

Interest Rates:	6/30/2023	12/30/2022	YTD Change (Basis Points)	5/31/2023	Month Change (BPS)
Fed Funds Effective Rate	5.08%	0.09%	499	5.08%	0
Prime Rate	8.25%	7.50%	75	8.25%	0
Three Month Treasury Bill	4.81%	0.09%	472	3.37%	144
Ten Year Treasury	3.84%	3.87%	-4	3.64%	19
Spread - 10 Year vs 3 Month	-0.97%	3.79%	-476	0.27%	-125

Foreign Currencies:	6/30/2023	12/30/2022	% Change YTD	5/31/2023	% Change (Monthly)
Brazil Real (in US dollars)	0.21	0.19	10.4%	0.20	5.6%
British Pound (in US dollars)	1.27	1.21	5.1%	1.24	2.1%
Canadian Dollar (in US dollars)	0.76	0.74	2.4%	0.74	2.5%
Chinese Yuan (per US dollar)	7.25	6.90	5.1%	7.11	2.0%
Euro (in US dollars)	1.09	1.07	1.9%	1.07	2.1%
Japanese Yen (per US dollar)	144.31	131.12	10.1%	139.34	3.6%

Commodity Prices:	6/30/2023	12/30/2022	% Change YTD	5/31/2023	% Change (Monthly)
CRB (Commodity) Index	547.83	554.78	-1.3%	541.45	1.2%
Gold (Comex spot per troy oz.)	1919.35	1824.02	5.2%	1962.73	-2.2%
Oil (West Texas int. crude)	70.64	80.26	-12.0%	68.09	3.7%
Aluminum (LME spot per metric ton)	2110.50	2349.51	-10.2%	2286.50	-7.7%
Natural Gas (Futures 10,000 MMBtu)	2.80	4.48	-37.5%	2.27	23.5%

Economic Indicators:	3/31/2023	12/31/2021	% Change YTD	2/28/2023	% Change (Monthly)
Consumer Price Index	301.8	280.9	7.4%	301.7	0.05%
Producer Price Index	253.4	233.5	8.5%	259.95	-2.53%
	Q1 2023	**Q4 2022**	**Q3 2022**	**Q2 2022**	**Q1 2022**
GDP Growth Rate (Quarterly)	2.00%	2.60%	3.20%	-0.60%	-1.60%
Unemployment Rate (End of Month)	**May** **3.7%**	**April** **3.4%**	**March** **3.5%**	**February** **3.6%**	**January** **3.4%**

*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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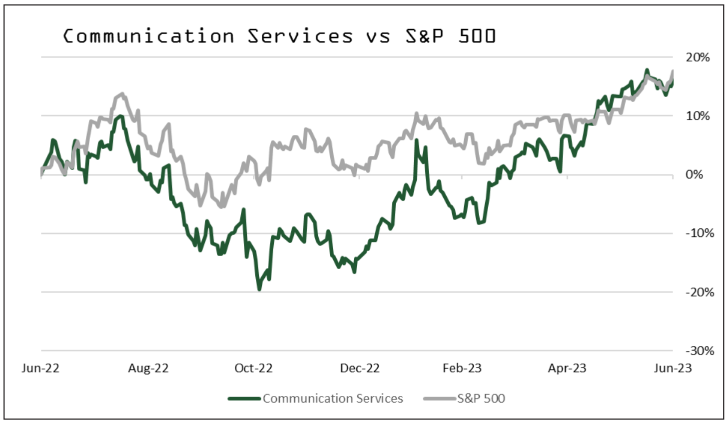
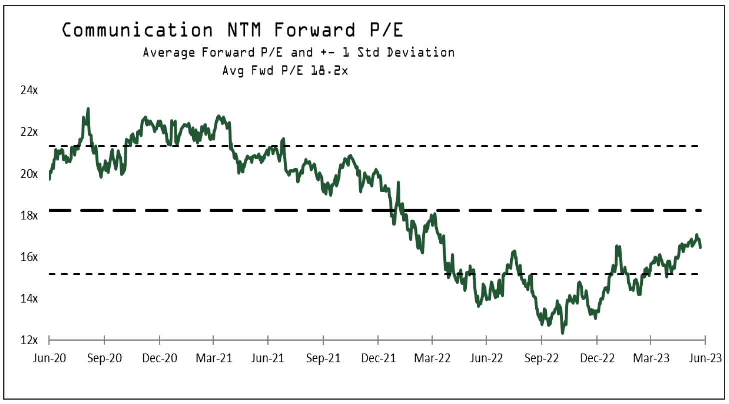
COMMUNICATIONS SERVICES





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
2.57%	12.82%	35.58%	16.15%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
6.47%	8.30%	15.91%	17.57%

	Company Performance	1 Month
Leader	Match Group Inc	21.3%
	Live Nation Ent.	14.0%
	Charter Comm.	12.6%
	Netflix Inc	11.5%
	Warner Bros Discovery	11.2%
Laggards	Alphabet Inc	-2.6%
	Alphabet Inc	-1.9%
	T-Mobile US Inc	1.2%
	Electronic Arts Inc	1.3%
	AT&T Inc	1.4%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$10.34	$11.99	$14.18
20.9x	18.0x	15.2x

Sector Update

Communications Services (+2.57%) underperformed the market in June. Entertainment companies Netflix and Warner Brothers Discovery were among the top performers in Communications Services.

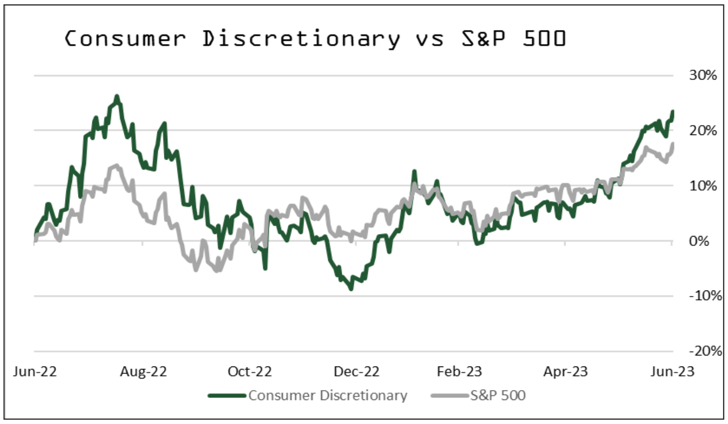
Investors were more positively inclined toward Netflix in June, since its introduction of a lower priced ad supported service and its crack down on password sharing could contribute to improved subscriber, revenue, and profit growth. Netflix signed up five million customers for its new lower priced ad supported service in the first quarter and generated higher monthly revenue from this service than from its ad free, higher priced service.

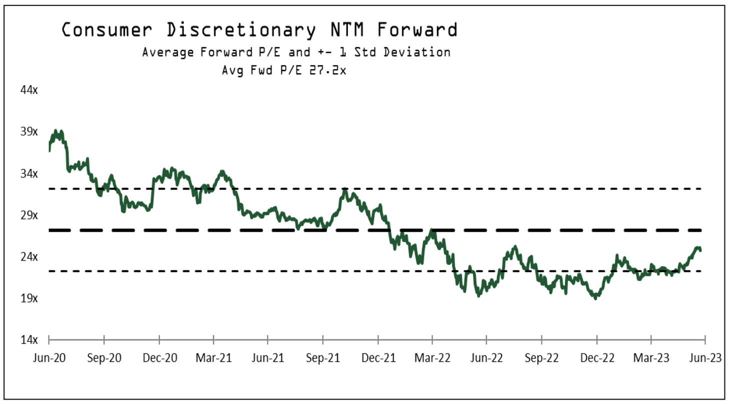
The company introduced its “paid sharing” program in four countries in Q-1 23, including Canada, where existing Netflix paying members can pay an additional fee to allow their friends or family members (that formerly received Netflix free through password sharing) continued access to the Netflix service. While the introduction of its paid sharing service in Canada initially contributed to higher customer turnover, the company reported that customer turnover stabilized and its subscriber and revenue growth improved by the end of the first quarter.

Warner Brothers Discovery (WBD) launched Max, its new streaming platform that includes both HBO Max and Discovery+ content, on May 23 in the U.S. and plans to launch this service in Europe and the Far East by year-end. Investors responded favorably to WBD’s guidance for its streaming media service to become profitable in 2023, a full year ahead of its original guidance, and to generate a potential profit of $1 billion in FY24.

The Communications Services sector could perform in line with the market in the near-term, since it appears close to fairly valued, with a forward P/E of 18.0x, in line with its average P/E multiple.

CONSUMER DISCRETIONARY





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
11.99%	14.31%	32.33%	23.45%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
6.47%	8.30%	15.91%	17.57%

	Company Performance	1 Month
Leader	Carnival Corp	67.7%
	Norwegian Cruise	46.6%
	Tesla Inc	28.4%
	Royal Caribbean	28.1%
	Ford Motor Co	26.1%
Laggards	Advance Auto Parts Inc	-3.6%
	Garmin Ltd	1.1%
	Starbucks Corp	1.5%
	Chipotle Mexican Grill	3.0%
	Etsy Inc	4.4%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$40.50	$48.62	$56.58
32.9x	27.4x	23.5x

Sector Update

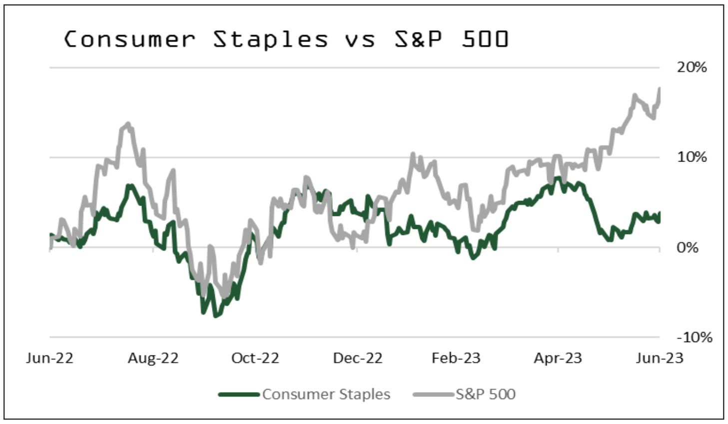
June performance was outstanding for the Consumer Discretionary sector which tracked well ahead of the S&P 500 for the month. Sub-sectors that demonstrated the strongest outperformance in June included Automobiles, Auto Components, and Distributors. Each Consumer Discretionary sub-sector tracked in positive territory for the month but laggards included Textiles, Apparel & Luxury Goods as well as Hotels, Restaurants & Leisure. The strong gains seen in June have translated to relative outperformance for the index versus the S&P 500 for the 1-month, 3-months, year-to-date, and trailing twelve months periods as seen in the accompanying chart.

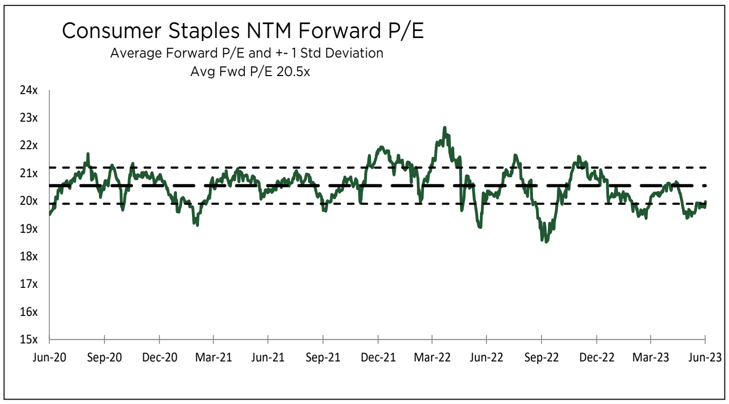
Retail sales in May continued the positive trend set in April as reported by the Commerce Department in June. Retail sales increased 0.3% in the month with strong numbers in categories such as building materials and motor vehicles. Gas station sales were the weakest across the retail sector as lower gasoline prices weighed on monthly results. Core retail sales, which excludes auto and gas sales, were up an even stronger 0.4%. In general, retail sales in May advanced modestly across a wide range of retailing sectors suggestive of a broad pickup in activity.

New home starts for May were reported by the Commerce Department well above expectations with growth in both single and multi-family home construction. Low supply of available for sale homes has weighed on the housing market over the past few years as homeowners have been reluctant to move. Overall, housing starts jumped 21.7% in May from April with a seasonally adjusted annual rate of 1.631 million new homes. The monthly increase in single family home starts was 18.5% and 28.1% for multi-family homes. On a year-over-year basis, total housing starts increased by 5.7%.

Existing home sales increased 0.2% in May to an annualized level of 4.3 million according to the National Association of Realtors or NAR. On a year-over-year basis, existing home sales declined 20.4% likely impacted by a low number of available for sale properties. The NAR reported that there were only 1.08 million available for sale homes in the month which represented the lowest level for May since the NAR began tracking the data in 1983. Home prices have been in a four month downtrend with the median price dropping 3.1% year-over-year to $396,100 this year.

In late June, the S&P CoreLogic Case-Shiller 20-city house price index for April was released indicating that monthly home prices increased 0.9%. The increase in home prices came despite a challenging macro backdrop including mortgage rates near the 7% level. On a year-over-year basis, home prices declined by 1.7%.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
2.87%	-0.20%	-0.04%	3.84%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
6.47%	8.30%	15.91%	17.57%

	Company Performance	1 Month
Leader	Philip Morris	8.5%
	Church & Dwight Co	8.4%
	Brown-Forman Corp	8.1%
	Walmart Inc	7.0%
	Archer-Daniels-Midland	6.9%
Laggards	Dollar General Corp	-15.6%
	Campbell Soup Co	-9.6%
	General Mills Inc	-8.9%
	Kraft Heinz Co/The	-7.1%
	Walgreens	-6.2%

Consensus FY EPS / P/E

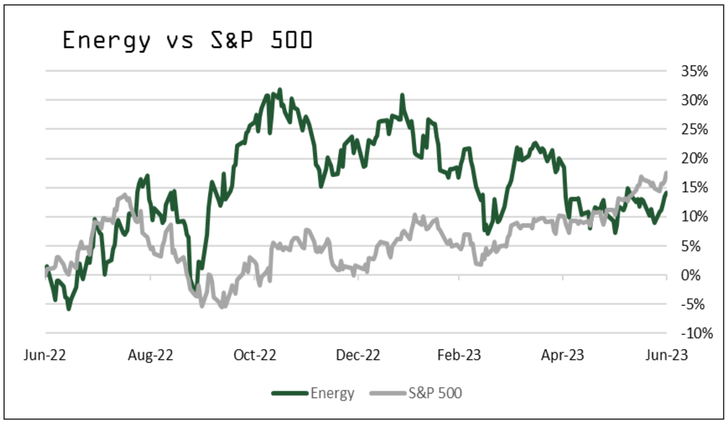
Last Year	Current Year	Next Year
$35.23	$37.72	$40.95
22.1x	20.6x	19.0x

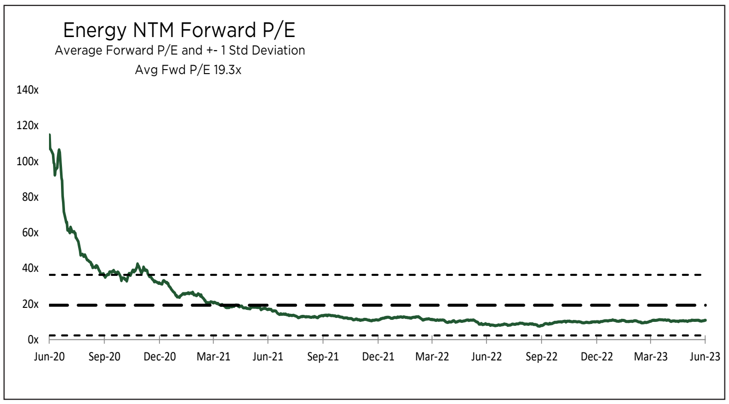
Sector Update

The Consumer Staples sector increased 2.87% on average in June and underperformed the S&P 500 Index that increased 6.47%. All sub-sectors contributed to the results in the month with the exception of Food Products. A top-line reported sales miss and unexpected retailer inventory deload drove the share prices lower for the food producers. Retailers apparently are working to reduce working capital needs by lowering inventory levels as they are increasingly more confident in the recovery of the supply chain and the ability to source product. Rising elasticity concerns along with consumers increasingly trading down to private label products remain key questions. Year-to-date, the Consumer Staples sector decreased 0.04% on average and well underperformed the S&P 500 Index that increased 15.91%. The Consumer Staples segment trades with a current forward P/E of 20.6x which is relatively in line with its average forward P/E of about 20.5x. Strategic emphasis remains on revenue growth management, managing volume and realizing fixed cost leverage and cost savings, innovating and increasing service levels. A slowdown in the top-line vs expectations in 2H and into 2024 raises the risk of an increased promotional environment. Consumer Staples companies continue to approach the balance of 2023 with a more cautious outlook incorporating elasticities more in line with historical averages and modest volume assumptions. There is renewed interest for consolidation as consumer staples companies seek to drive faster top-line growth, reformulate brand portfolios and seek additional cost savings. If potential acquisitions do not occur, managements should return value to shareholders through dividends and share repurchases. We continue to advise the selective investment among the Consumer Staples stocks and prefer an investment in companies with pricing, leading market share, strong balance sheets, and experienced management. Companies exposed to attractive growth segments including confectionery, snacks, beverages and pet food remain attractive investments. Consumer Staples companies offer an attractive dividend yield.

As reported by the National Alcohol Beverage Control Association (NABCA) for May 2023, volume for tracked U.S. Spirits (9-liter cases) accelerated sequentially to 6.4% from April. The results for May reflect the category's strongest monthly growth rate since June 2021, with broad-based sequential improvement across categories. Notably, tequila volumes accelerated significantly on a sequential basis after three consecutive months of sequential deceleration. Modelo is the #1 beer in the US displacing Bud Light as the brand faces continued boycotts. Momentum remains favorable for Modelo with particular strength in the South as well as an acceleration in beer depletions sequentially. As reported in the latest June Acreage report (NASS) released by the USDA, the domestic corn planted acreage is forecast 6% higher to 94.1 million acres. Domestic soybean acreage is forecast 5% lower at 83.5 million acres vs the prior year period. The corn outlook is a favorable trend for livestock producers, but it still remains early in the season.

ENERGY





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
6.47%	-1.79%	-7.26%	14.15%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
6.47%	8.30%	15.91%	17.57%

	Company Performance	1 Month
Leader	EQT Corp	18.3%
	Baker Hughes Co	16.0%
	Halliburton Co	15.1%
	Schlumberger NV	14.7%
	Williams Cos Inc/The	13.9%
Laggards	Occidental Petroleum	2.0%
	Diamondback Energy	3.3%
	Marathon Oil Corp	3.9%
	Pioneer Natural	3.9%
	Phillips 66	4.1%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$82.08	$57.63	$57.66
7.6x	10.8x	10.8x

Sector Update

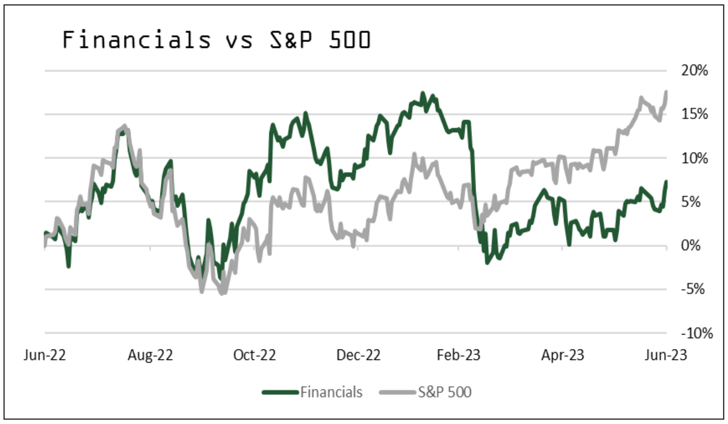
Energy markets were relatively flat in June with oil prices setting the market backdrop. Energy sector equities tracked the broader market in June after underperforming in May. The Energy Equipment & Services sub-sector, however, outperformed for the month while the Oil, Gas & Consumable Fuels sub-sector lagged the broader market. Although the Energy sector held its own in June, the sector has lagged significantly behind the S&P 500 for the trailing three-month, year-to-date, and trailing twelve-month periods, as seen in the accompanying table.

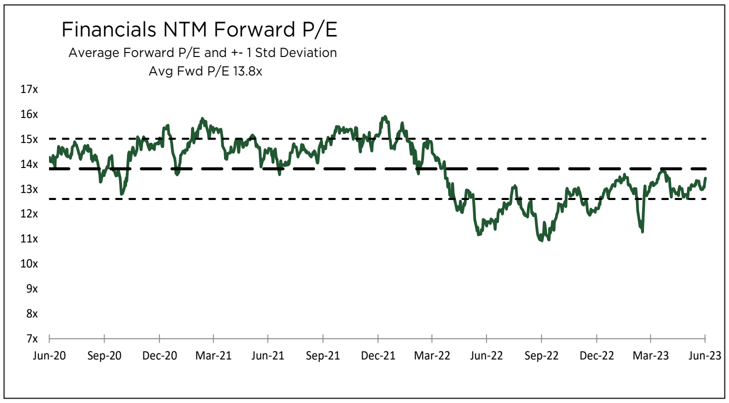
In early June, Saudi Arabia announced unilaterally that the nation would reduce oil production by one million barrels per day beginning in July. The announcement followed the OPEC+ meeting in Vienna where the group agreed to extend previous production cuts through next year. The Saudi move appears to reflect a macro environment that remains uncertain around global economic growth including in China as it recovers from COVID induced restrictions. The effectiveness of OPEC production cuts has been questioned given the decline in oil prices that has occurred despite a range of cuts over the past several months.

OPEC presented its long-term forecast for oil demand suggestive of continuing growth expectations. The organization is targeting 23% growth to 110 million barrels per day in global oil demand by 2045. The outlook incorporates oil at about 29% of total global energy utilization in 2045. The OPEC demand outlook is more bullish for oil than that provided by the International Energy Agency (IEA) which presented forecasts suggesting that secular growth in oil demand should peak before 2030 as adoption of electric vehicles increase. The electric vehicle market transition may pressure fuel demand ultimately leading to longer-term declines per the IEA.

Oil commodity markets were somewhat mixed through the month of June as macro catalysts were relatively subdued. West Texas Intermediate (WTI) crude oil prices tracked generally sideways in June with WTI trading from around the $70 per barrel range to end the month relatively flat. Natural gas prices rose in June from about $2.27 per million Btu to end the month at about $2.80 per million Btu. Retail gasoline prices were relatively flat in June moving to $3.69 per gallon at the end of the month from the $3.68 average price seen at the end of May and is down sharply from the prior year level of $4.98.

The Baker Hughes oil rig count was down in the month coming in at 545 rigs for May versus 570 rigs last month. Oil rig count at month-end was down versus the prior year level of 594 rigs which differs with the trend we have seen of growth in rig counts over the past year. U.S. crude oil storage at 454 million barrels was down slightly from last month's level of 460 million barrels. We note that storage levels have generally been declining off the 2020 pandemic highs and are currently above the prior year level of 416 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 2022. The trough daily production seen in 2020 was in the 9.7 million barrels per day range and has now rebounded to about 12.2 million barrels per day at the end of the month.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
6.53%	4.83%	-1.51%	7.22%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
6.47%	8.30%	15.91%	17.57%

	Company Performance	1 Month
Leader	Lincoln National Corp	23.1%
	Comerica Inc	17.3%
	Invesco Ltd	16.9%
	Principal Financial	15.9%
	Raymond James	14.9%
Laggards	Nasdaq Inc	-9.9%
	MarketAxess Holdings	-4.0%
	Zions Bancorp NA	-1.6%
	KeyCorp	-1.1%
	Goldman Sachs Group	-0.4%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$35.91	$40.24	$43.57
15.6x	13.9x	12.9x

Sector Update

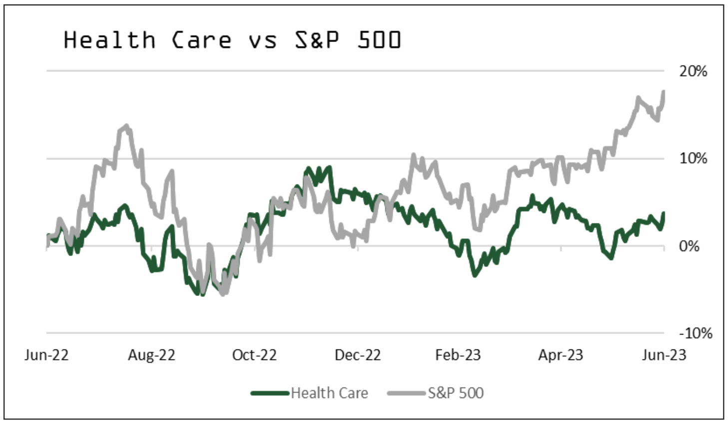
The Financials sector improved 6.53% in June, effectively in-line with the S&P 500 that posted a 6.47% gain in the same period. Financial sector performance on a YTD and TTM basis remains well below index levels reflecting a 1.5% decline in the first half of 2023 and 7.2% gain from the prior year period. Underperformance relative to the market index largely reflects banking turmoil in March and more dramatic gains in the heavily weighted technology sector in the past six and twelve months.

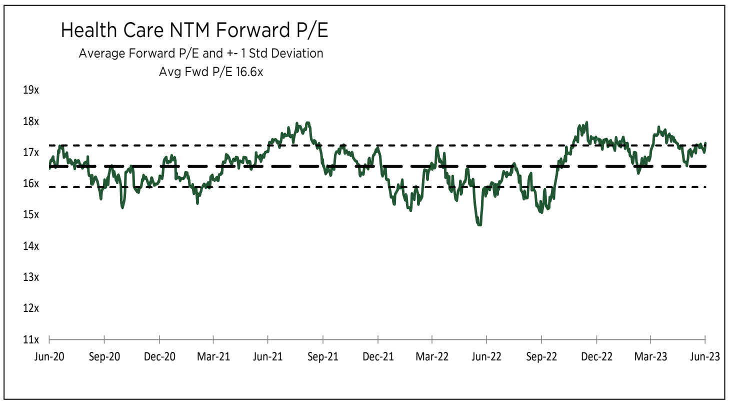
Consumer Finance was the leading Financials sub-sector in June, up 9.3% in the month as sentiment improved on credit loss potential related to continued solid labor market data. Low unemployment historically supports resilience in credit metrics; however, resumption of student loan payments in September may be a headwind to loss and delinquency trends as credit performance has deteriorated toward pre-pandemic levels at mid-year, inclusive of strong unemployment statistics and forbearance ongoing. Insurance and Diversified Financial Services sub-sectors outpaced the broader market gain on 7.3% and 7.1% monthly gains, respectively. Banks and Capital Markets sub-sectors improved 5.8% and 5.4%, respectively, lagging the broader market in June.

In June, the Federal Reserve announced all 23 participating large banks—including JPMorgan, Bank of America, Citi, Wells Fargo, and Truist, among others—passed its annual stress testing. The regulator found that all banks were able to maintain minimum capital levels against a scenario including a 10% unemployment rate, 40% decline in commercial real estate values, and 38% decline in residential property prices resulting in ~$541B of system-wide losses. While results underscore the robust loss absorbing capacity of the US banking system, the industry anxiously awaits new rulemaking around capital requirements tied to liquidity challenges faced in March. New rules, including potential inclusion of unrealized securities marks in regulatory capital may have greater implications in the regional banking space relative to mega-cap universals.

Second quarter earnings will kick off with notable reports from the nation's largest banks in early July. Key trends in focus center around sequentially weaker trading revenues on subdued volatility, net interest margin compression on increased deposit costs, and trajectory of credit loss provisioning as a harbinger of economic uncertainty. Sector valuations appear reasonable following recent weakness, but the path forward remains challenging near-term on reduced earnings forecasts and abundant recessionary/liquidity concerns.

HEALTH CARE





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
4.19%	2.51%	-2.33%	3.63%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
6.47%	8.30%	15.91%	17.57%

	Company Performance	1 Month
Leader	Align Technology Inc	25.1%
	Universal Health	19.4%
	Catalent Inc	16.5%
	Cardinal Health	14.9%
	HCA Healthcare	14.9%
Laggards	Humana	-10.9%
	Moderna	-4.9%
	Illumina	-4.7%
	Biogen	-3.9%
	Pfizer	-3.5%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$76.98	$86.20	$93.73
20.1x	18.0x	16.5x

Sector Update

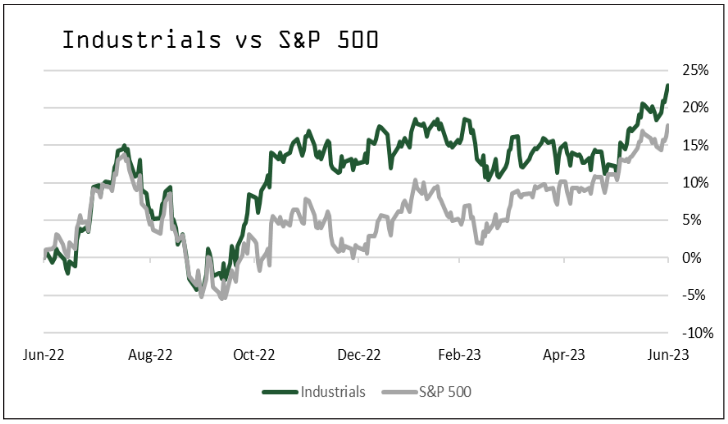
Propelled by a hope that the U.S. Federal Reserve is nearing the end of its rate-hiking campaign, markets advanced significantly in June with the S&P 500 up 6.47%. Unlike in May, S&P breadth turned firmly positive in June, with 454 issues - including 155 issues up over 10% - up in June compared with May's 124 positive issues. Additionally, all 11 sectors were up in June compared to only 3 in May. Year to date, market breadth also turned positive after June's rally with 300 issues showing positive performance. Despite wide-spread gains in June, the S&P 500 has remained top-heavy, with the top 10 issues accounting for 30.5% of the total market value. The Health Care sector lagged the market in June with a 4.19% gain – being in the middle of the pack for relative performance. As the COVID pandemic ended, many healthcare firms that had delivered diagnostics and therapeutics to patients globally have experienced substantive headwinds with those products and services falling off sharply, while other sectors of the economy rebounded with the reopening of the economy. Thus, we are not surprised to see the Health Care sector as continuing a trend of underperformance that has persisted over the past year.

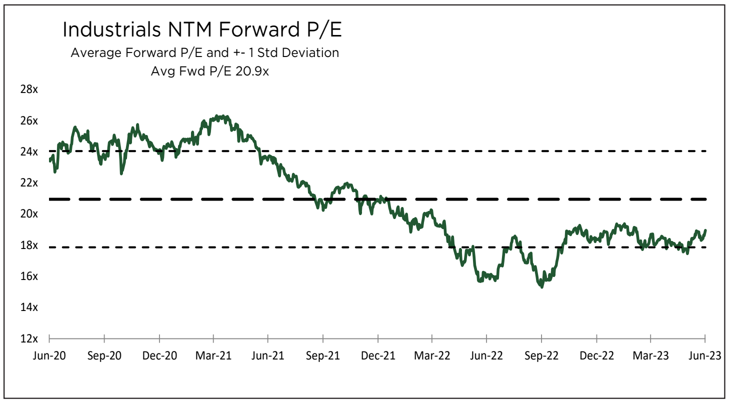
As we have expected, the core business among health care service providers has returned to pre-pandemic levels with the demand for medical technology having rebounded and hospital admissions rates ramping up. In the meantime, biopharma R&D is now delivering significant new therapeutics to market with active pipelines advancing – representing solid intermediate and longer-term growth potential. Economic uncertainty for the U.S. persists with economists calling for a recession to arrive in early 2024 that if forthcoming would be supportive of the defensive health care sector. As such, we continue to recommend selective investment in the Health Care sector – focusing on companies delivering value-added products and services, generating solid earnings and free cash flow to sustain intermediate growth and drive increased dividends/returns to investors.

As illustrated in the adjacent tables, Align, Universal Health Services, Catalent, Cardinal Health, and HCA Healthcare each achieved mid-teens to mid-twenties appreciation in June. Investors bought into Align as market participants bet on the cyclical-natured orthodontics stock to perform well amid strong consumer trends that persevered through June, along with increased hope that the Federal Reserve is nearing the end of its rate hiking efforts. Hospital networks Universal Health Services and HCA Healthcare also posted sector-leading gains after health insurance giant United Health Group stated during a fireside chat at the Goldman Sachs healthcare conference that they expect their medical loss ratio to tick higher. This forecast from United Health Group was prompted by an increase in the number of patients returning to the operating room to undergo elective surgeries that they forewent during the pandemic. Health Insurer Humana underperformed the entirety of the Health Care sector as these forecasts affect Humana more than other health insurer stocks due to Humana's large presence in Medicare.

Other health care laggards of June include Moderna, Illumina, Biogen, and Pfizer. Moderna shares continued to face substantive COVID headwinds as vaccine sales have fallen sharply, while Illumina faced increased pressure from the biotech slowdown. Illumnia's CEO also resigned in June, after he initially appeared to fend off activist pressure from Carl Icahn. Biogen shares fell in June after downgrades from the street, directors leaving the company's board, and an uncertain future for Alzheimer's drug Lequembi. Lastly, Pfizer stock fell in June after they halted research on an early-stage GLP-1 obesity drug, faced continued COVID headwinds, and concerns about their pipeline. Thus, we reiterate that selectivity remains key when sifting through the Health Care sector in search of investment opportunities today.

INDUSTRIALS





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
11.17%	6.01%	9.22%	22.98%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
6.47%	8.30%	15.91%	17.57%

	Company Performance	1 Month
Leader	Generac Holdings Inc	36.9%
	United Rentals Inc	33.4%
	Delta Air Lines Inc	30.9%
	Stanley Black & Decker	25.0%
	Parker-Hannifin Corp	21.7%
Laggards	CH Robinson	-0.2%
	Axon Enterprise Inc	1.1%
	Boeing Co	2.7%
	Verisk Analytics Inc	3.2%
	Lockheed Martin Corp	3.7%

Consensus FY EPS / P/E

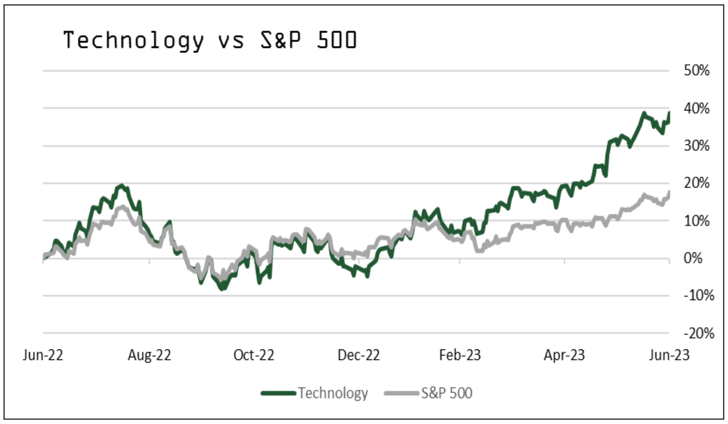
Last Year	Current Year	Next Year
$40.44	$45.38	$51.43
22.5x	20.0x	17.7x

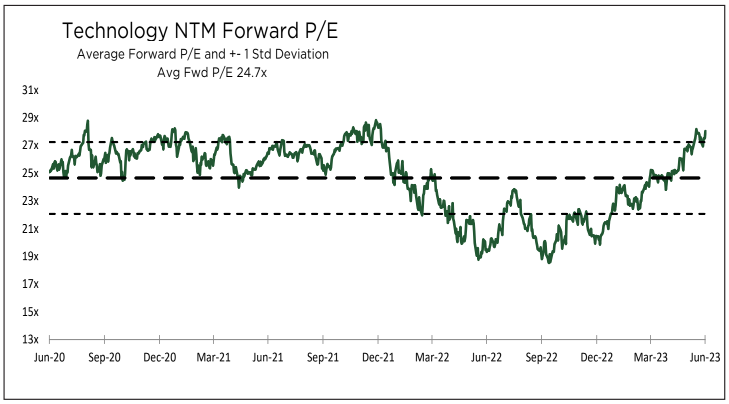
Sector Update

The Industrial Sector's 11.17% increase handily outperformed the S&P 500's 6.47% gain in the month of June, reflecting more broad-based performance across the S&P 500 than when compared to May. As economic data has proved resilient, investors have shifted from growth back into cyclical stocks, evidenced by strong gains in Industrials, Consumer Discretionary, and Materials. All 12 subsectors within the Industrials sector reported gains in June, led by a 22.9% increase posted by Airlines. Despite stubborn inflation trends and fears of a slowing economy, Airlines stocks posted their strongest monthly performance since 2021, aided by easing fuel prices and indications of favorable travel demand expected throughout the summer months. As shown in the accompanying table, Delta Airlines (NYSE-DAL) increased 30.9% in June, as the company reinstated their dividend payments that were stalled during the COVID-19 pandemic.

The best performing equity in the Industrial Sector was Generac Holdings, which rose 36.9% in June driven by an expected increase in demand correlated with rising expectations of power outages across Texas, the Midwest, New England, and Florida. On the other hand, CH Robinson (NASDAQ-CHRW) was the only company that posted negative returns within the Industrial sector in June, as investor's considered competition from new entrants, moderating demand, and lower rates, coupled with pressure from activist investors.

The June Manufacturing PMI registered a reading of 46%, 0.9% lower than the 46.9% recorded in May, representing a seven month of contraction after a 30 month period of expansion. The New Orders Index remained in contraction territory at 45.6%, 3% higher than the figure of 42.6% recorded in May. The Prices index reading of 41.8%, down 2.4% compared to the May figure of 44.2%. In regards to employment, the Employment Index dropped into contraction, registering 48.1%, down 3.3% from May's reading of 51.4%, as companies reduced production and began using layoffs to manage head counts to a greater extent than in prior months. The Industrial Sector is trading at a Forward P/E of 20.0x, up 1.6x from last month's reading of 18.4 and below the sector's three year average of 20.9x.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
6.55%	16.93%	42.06%	38.82%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
6.47%	8.30%	15.91%	17.57%

	Company Performance	1 Month
Leader	Palo Alto Networks	19.7%
	Microchip Technology	19.0%
	Adobe Inc	17.0%
	Hewlett Packard	16.5%
	NetApp Inc	15.1%
Laggards	EPAM Systems Inc	-12.4%
	Micron Technology Inc	-7.5%
	First Solar Inc	-6.3%
	SolarEdge Technologies	-5.5%
	Salesforce Inc	-5.4%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$86.64	$104.46	$121.65
35.6x	29.5x	25.4x

Sector Update

The Technology sector slightly outperformed the market in June. The Semiconductor & Semiconductor Equipment remained the top performing Technology sub-sector year-to-date. Broadcom, a leading semiconductor manufacturer, reported better than expected results and highlighted generative AI. Broadcom expects its AI infrastructure revenue to increase from 11% of firm revenue today to 20% by Q-4 24.

Even though the Software sector (+4.4%) underperformed the market in June, Palo Alto Networks, the largest independent security software company, and Adobe, a leading software content provider, significantly outpaced the market. Palo Alto Networks benefited from its addition to the S&P 500 index while Adobe reported better than expected results and guidance and highlighted how generative AI would improve its existing software applications.

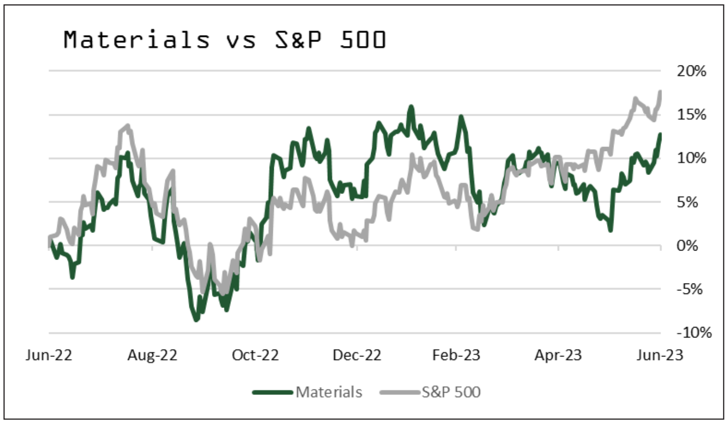
Adobe launched its Firefly.com web site in March, which enabled consumers to create an image or video from text or voice inputs from Adobe's Photoshop application augmented by generative AI. Consumers were enthralled by this technology, with over 500,000 digital images created on the Firefly.com web site since March.

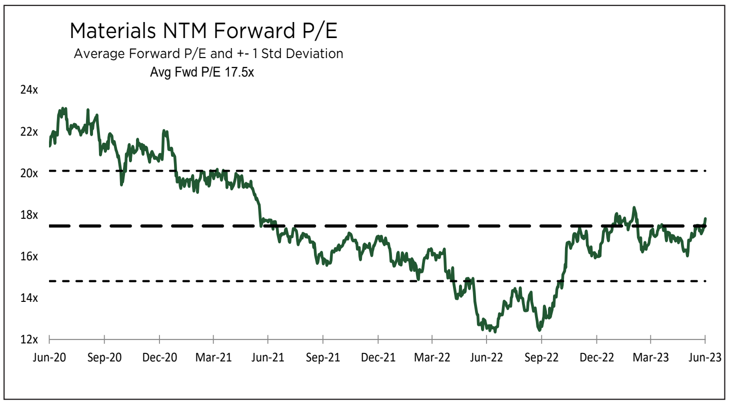
The company is including generative AI technology (including a copilot to guide users) with its creative content applications, including Illustrator, Photoshop, and Adobe Express, its web-based design tool. Alphabet will include Adobe's Firefly generative AI technology with Bard, its AI chatbot.

Adobe's CEO believes that its Firefly generative AI tools could expand the number of people creating their own content and could boost usage of Adobe's creative software applications such as Photoshop, Illustrator, and Premiere. In addition, Adobe's CEO believes that generative AI could improve Adobe's customer retention and contribute to higher pricing for its products.

The Technology sector could underperform the market in the near-term, since it appears fully valued, with a 12-month forward P/E of 29.5x, compared to its average forward P/E of 24.7x.

MATERIALS





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
10.81%	2.76%	6.61%	12.69%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
6.47%	8.30%	15.91%	17.57%

	Company Performance	1 Month
Leader	Nucor Corp	24.2%
	Steel Dynamics Inc	18.5%
	Sherwin-Williams Co	16.6%
	Freeport-McMoRan Inc	16.5%
	Martin Marietta	16.0%
Laggards	FMC Corp	0.2%
	International Flavors	3.0%
	Amcor PLC	3.5%
	Westrock Co	3.8%
	Newmont Corp	5.2%

Consensus FY EPS / P/E

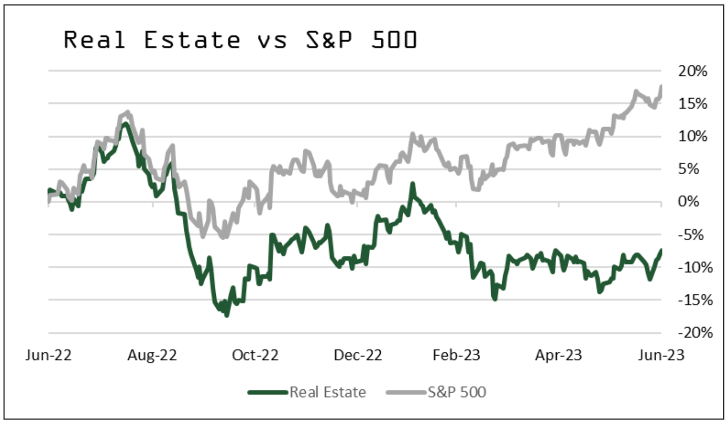
Last Year	Current Year	Next Year
$32.12	$28.78	$30.29
16.3x	18.1x	17.2x

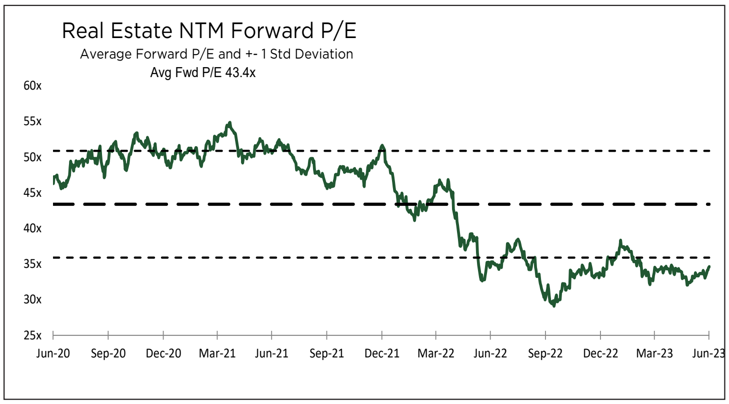
Sector Update

The Materials segment increased 10.81% in June and outperformed the S&P 500 Index that increased 6.47%. The Metals & Mining and Construction Material sectors were the biggest contributors, but all sectors increased for the month. The Materials segment now trades with a current forward P/E of 18.1x and above its average forward P/E of about 17.5x. YTD, the Materials segment increased 6.61% year-to-date and underperformed the S&P 500 Index that increased 15.91%. Focus centered on recent housing data. As reported by the Census and the Department of Housing and Urban Development, total housing starts advanced 21.7% in May vs the prior year period to a seasonally adjusted annual rate of 1.631 million. Results exceeded estimates of 1.4 million and accelerated from 1.34 million reported in May. In addition, building permits increased 5.2% to 1.491 million vs the prior month and ahead of the consensus for 1.425 million. Existing home sales for May were 4.3 million and exceeded the consensus and accelerated slightly from the prior month. Recent earnings updates by companies further support the commentary that housing demand continues to improve heading into summer. Housing supply remains tight especially for low-priced housing options.

Approaching Q2 earnings season and the Fed Meeting on July 26th, investors remain more in a holding period. For 2H, key drivers include consumer demand, the outlook for the macro-economic environment and potential for a recession, realized pricing, and inventory levels. Focus remains on whether the Fed will raise rates by 25bp in July following a pause in June. A further pause in interest rates hikes would likely serve as a catalyst for building stocks. Investors are most concerned about the earnings outlook for fertilizer and chemical companies while the expectations is more constructive towards coatings and renewable energy companies. Ingredients, chemicals and packaging companies face greater inventory destocking potential in 2H setting up for a more favorable potential in 2024. Key costs (resin, solvents, additives, etc) are trending lower further supporting a more favorable position ahead of 2024. Preferred areas for potential investment include hydrocarbon, coatings, and lithium. Selective investment among the group remains a key factor with preference for strong management teams and high quality businesses.

REAL ESTATE





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
4.83%	0.81%	1.85%	-7.47%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
6.47%	8.30%	15.91%	17.57%

	Company Performance	1 Month
Leader	Boston Properties	18.3%
	Weyerhaeuser	16.9%
	CoStar Group	12.1%
	Digital Realty Trust	11.1%
	Simon Property Group	9.8%
Laggards	Prologis Inc	-1.5%
	Alexandria Real Estate	0.0%
	Realty Income Corp	0.6%
	Crown Castle Inc	0.6%
	Healthpeak Properties	0.7%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$6.37	$6.52	$7.17
37.2x	36.3x	33.0x

Sector Update

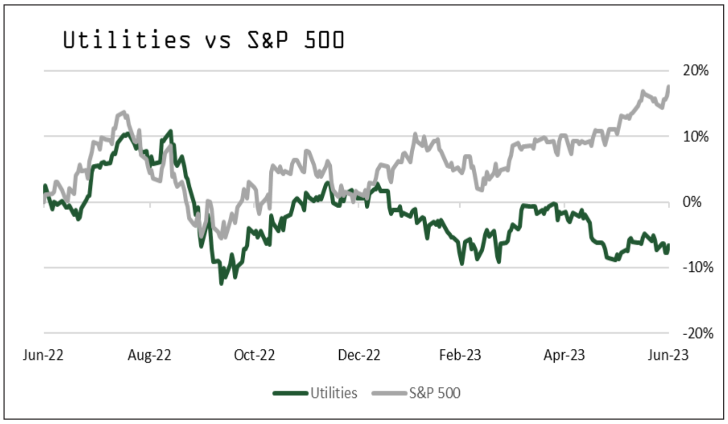
Although the Real Estate sector continues to lag the performance of the broad market as illustrated in the adjacent tables, we note that the sector gained 4.83% in the month of June. Many sector companies participated in the early June Nareit REIT Week conference held in New York offering generally positive updates on current business conditions. The consensus view among company managements was that although the current operating environment is not great, the situation is not as bad as portrayed by the markets. In the meantime, the spring 2023 banking crisis appears to have passed with all 23 of the U.S. banks included in the Federal Reserve's annual stress test poised to weather a severe recession scenario while continuing to lend to consumers and corporations. Thus, REITs within the commercial segment – notably office space – saw financing concerns abate in a bottoming process helping to fuel the sector gain in June. In contrast, while the S&P 500 advanced 6.47% for the month of June and is up 15.91% for the 1H2023, we note that participation has been narrow with the strength driven by just a few mega cap tech sector issues experiencing substantial double digit gains – with an equal weighted appreciation running closer to 5% in the 1H2023 with many stocks generally stagnating.

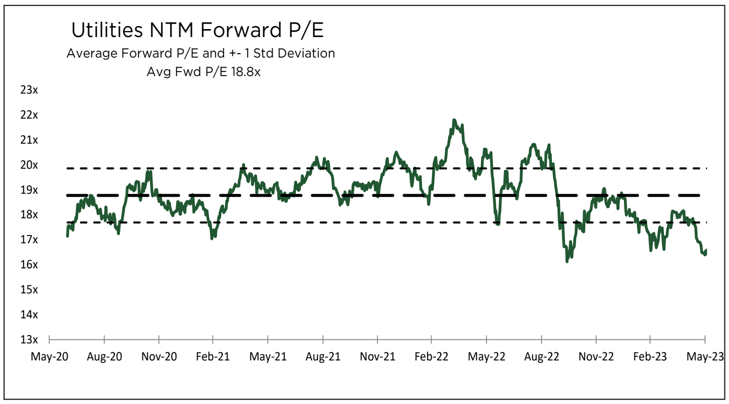
For Real Estate, the key factor that has driven underperformance over the past year has been the fast paced move by the Fed to hike interest rates in their attempt to quell inflation – with the funds rate rising from 0 to 500-525 basis points over the past 15 months. This has created alternative investments opportunities for those seeking yield, while also driving up interest expense exposure for REITs that employ significant leverage (including floating rate debt). Thus, although the overhang created by the spring banking crisis has abated, the operating environment for many sub-sectors within real estate remains challenging that we anticipate persists over the intermediate term.

Still, a few firms in the Real Estate sector managed to move higher in June, advancing by double digit pace lead by Boston Properties, Weyerhaeuser, CoStar Group and Digital Realty. At the Nareit conference, Boston Properties noted that the company retains strong liquidity, while the firm continues to steadily lease new office space in key urban, bicoastal markets with overall occupancy remaining relatively flat. Weyerhaeuser noted that timber shipments from the Eurozone have dipped – a positive for WY – while building permit issuance continues to rise at a mid-teens pace supporting sustained housing construction into 2H2023. In the meantime, cost cutting efforts continue, while WY remains focused on returning cash to shareholders having raised the dividend this year with targets to sustain 5% annual dividend increases going forward. Following an upbeat May 18th investor conference, CoStar shares continue to advance in June with management noting that softening rent inflation is driving heightened demand for the firm's apartments.com service. Digital Realty shares advanced smartly as the firm completed steps to shore up its balance sheet via asset sales and issuance of $1.1 billion of equity employing an at the market (ATM) effort.

The one REIT sector stock backing off modestly in June was Prologis that dipped by 1.5% as management noted that cooling demand for industrial space in Southern California is poised to impact rental rates and occupancy into 2024 with growth expected to resume in 2025. Thus, selectivity remains key for those sifting through the Real Estate sector with a challenging environment poised to persist and competitive returns available from fixed income markets.

UTILITIES





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
1.47%	-3.26%	-7.16%	-6.63%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
6.47%	8.30%	15.91%	17.57%

	Company Performance	1 Month
Leader	NRG Energy Inc	10.7%
	Constellation Energy	9.0%
	Pinnacle West Capital	5.4%
	AES Corp	5.0%
	Public Service Grou	4.8%
Laggards	Xcel Energy Inc	-4.8%
	Consolidated Edison Inc	-3.1%
	American Water Works	-1.2%
	Entergy Corp	-0.8%
	Duke Energy Corp	0.5%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$16.99	$18.69	$20.32
19.6x	17.8x	16.4x

Sector Update

The Utilities sector gained 1.47% in June, but lagged the 6.47% improvement in the S&P 500 by a wide margin as investors kept a 'risk-on' tilt to close the first half of 2023. The Utilities sector continues to lag the S&P in the past three and twelve month periods, as well as on a year-to-date basis continuing a stretch of relative weakness against an elevated interest backdrop. It remains the case that alternative interest bearing investments provide reasonable alternatives to 'bond proxy' equities as compared to the past 15 years, applying pressure to Utility performance throughout the ongoing monetary tightening cycle.

Three of four sub-sectors improved from the prior month, led by Independent Renewables and its sole member AES corp breaking a three-month stretch as the sector laggard. Water Utilities, including just American Water Works (AWK), was the only declining sub-sector on a 1.2% pullback in June. The broader Electric and Multi-Utilities subsectors gained 1.5% and 1.6%, respectively.

Abnormally mild weather, driving lower heating and cooling day count continues to challenge Utility earnings performance. Weather will continue to be a watch item heading into Q2 earnings reports, with sector members reporting in late July and early August. Local utility Dominion (D) recently announced a 25% cut to its Q2 EPS forecast at the mid-point, citing mild weather and an unplanned outage at its Millstone nuclear facility in Connecticut. Weather represented $.07-$.09 of headwind in the Q, representing half of the forecast reduction and ~12.5% of prior expectations.

Despite near-term volatility tied to interest rate dynamics and weather, Utilities appear well-positioned for above trend 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 closer to two standard deviations below its three-year average forward earnings multiple of 18.8x. Elevated interest rates have potential to remain a near-term overhang on the sector; however, a peak in interest rates or relative weakening in broader market earnings trends could be drivers of multiple expansion and stronger performance in the sector into 2024.

ECONOMIC CALENDAR

Date	Release	For	Prior
11-Jul	NFIB Small Business Optimism	Jun	89.4
12-Jul	MBA Mortgage Applications Index	7/8	-4.4%
12-Jul	CPI	Jun	0.10%
12-Jul	Core CPI	Jun	0.40%
12-Jul	EIA Crude Oil Inventories	7/8	-1.51M
12-Jul	Fed's Beige Book	Jul	NA
13-Jul	Initial Claims	7/8	248K
13-Jul	Continuing Claims	7/1	1720K
13-Jul	PPI	Jun	-0.3%
13-Jul	Core PPI	Jun	0.20%
13-Jul	EIA Natural Gas Inventories	7/8	+72 bcf
13-Jul	Treasury Budget	Jun	-$240.3B
14-Jul	Export Prices	Jun	-1.9%
14-Jul	Export Prices ex-ag.	Jun	-1.8%
14-Jul	Import Prices	Jun	-0.6%
14-Jul	Import Prices ex-oil	Jun	-0.1%
14-Jul	Univ. of Michigan Consumer Sentiment - Prelim	Jul	64.4
17-Jul	Empire State Manufacturing	Jul	6.6
18-Jul	Retail Sales	Jun	0.30%
18-Jul	Retail Sales ex-auto	Jun	0.10%
18-Jul	Industrial Production	Jun	-0.2%
18-Jul	Capacity Utilization	Jun	79.60%
18-Jul	Business Inventories	May	0.20%
18-Jul	NAHB Housing Market Index	Jul	55
18-Jul	Net Long-Term TIC Flows	May	$127.8B
19-Jul	MBA Mortgage Applications Index	7/15	NA
19-Jul	Housing Starts	Jun	1631K
19-Jul	Building Permits	Jun	1491K
19-Jul	EIA Crude Oil Inventories	7/15	NA
20-Jul	Initial Claims	7/15	NA
20-Jul	Continuing Claims	7/8	NA
20-Jul	Philadelphia Fed Index	Jul	-13.7
20-Jul	Existing Home Sales	Jun	4.30M
20-Jul	Leading Indicators	Jun	0.7%
20-Jul	EIA Natural Gas Inventories	7/15	NA
25-Jul	FHFA Housing Price Index	May	NA
25-Jul	S&P Case-Shiller Home Price Index	May	NA
25-Jul	Consumer Confidence	Jul	NA
26-Jul	MBA Mortgage Applications Index	7/22	NA
26-Jul	New Home Sales	Jun	NA
26-Jul	EIA Crude Oil Inventories	7/22	NA
26-Jul	FOMC Rate Decision	Jul	NA

ECONOMIC CALENDAR

26-Jul	FOMC Rate Decision	Jul	NA
27-Jul	Adv. Intl. Trade In Goods	Jun	NA
27-Jul	Chain Deflator - Adv	Q2	NA
27-Jul	Durable Goods - ex transportation	Jun	NA
27-Jul	Durable Orders	Jun	NA
27-Jul	GDP-Adv.	Q2	NA
27-Jul	Initial Claims	7/22	NA
27-Jul	Continuing Claims	7/15	NA
27-Jul	Pending Home Sales	Jun	NA
27-Jul	EIA Natural Gas Inventories	7/22	NA
28-Jul	Employment Cost Index	Q2	NA
28-Jul	PCE Prices	Jun	NA
28-Jul	PCE Prices - Core	Jun	NA
28-Jul	Personal Income	Jun	NA
28-Jul	Personal Spending	Jun	NA
28-Jul	Univ. of Michigan Consumer Sentiment - Final	Jul	NA
31-Jul	Chicago PMI	Jul	NA

DISCLOSURES

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

Past performance is not indicative of future results.

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

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

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

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

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

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CORPORATE HEADQUARTERS

One James Center | 901 East Cary Street, Suite 1100 | Richmond, Virginia 23219
(804) 780-2000 (800) 846-6666
www.investdavenport.com

Abingdon
153 W. Main St., Ste. 100
Abingdon, VA 24210
(276) 274-8277

Atlanta*
515 E. Crossville Rd., Ste. 380
Roswell, GA 30075
(404) 865-4040

Charlotte*
101 North Tryon St., Ste. 1220
Charlotte, NC 28246
(704) 375-0550

Charlottesville
600 E. Water St., Ste. A
Charlottesville, VA 22902
(434) 296-9013

Danville
165 Holt Garrison Pkwy., Ste. 570B
Danville, VA 24540
(434) 836-5528

Farmville
101 North Main St.
Farmville, VA 23901
(434) 392-9813

Franklin
105 West Fourth Ave.
Franklin, VA 23851
(757) 562-0053

Fredericksburg
904 Princess Anne St., Ste. 102
Fredericksburg, VA 22401
(540) 373-1863

Greensboro
628 Green Valley Rd., Ste. 410
Greensboro, NC 27408
(336) 297-2800

Harrisonburg
21 Carpenter Lane, Suite 101
Harrisonburg, VA 22801
(540) 383-6550

Kilmarnock
141 Technology Park Dr.
Kilmarnock, VA 22482
(804) 435-7705

Leesburg*
19301 Winmeade Dr., Ste. 218
Leesburg, VA 20176
(571) 223-5893

Lynchburg
1104 Commerce St.
Lynchburg, VA 24504
(434) 948-1100

Newport News
11827 Canon Blvd., Ste. 404
Newport News, VA 23606
(757) 595-5740

Norfolk
101 West Main St., Ste. 4000
Norfolk, VA 23510
(757) 314-3600

Richmond
901 East Cary St., Ste. 1100
Richmond, VA 23219
(804) 780-2000

Raleigh
3605 Glenwood Ave., Ste. 310
Raleigh, NC 27612
(919) 571-6550

Roanoke
10 Franklin Road S.E., Ste. 450
Roanoke, VA 24011
(540) 345-1909

Sanford
503 Carthage St., Ste. 300
Sanford, NC 27330
(919) 777-9823

Staunton
59 Lee Highway
Verona, VA 24482
(540) 430-7696

Suffolk
330 West Constance Rd., Ste. 200
Suffolk, VA 23434
(757) 539-5355

Towson*
8600 LaSalle Rd., Ste. 618
Towson, MD 21286
(410) 296-9426

Virginia Beach
477 Viking Dr., Ste. 200
Virginia Beach, VA 23452
(757) 498-4000

Williamsburg
5400 Discovery Park Blvd., Ste. 301
Williamsburg, VA 23188
(757) 258-2800

*Public Finance office.