

October 2017 Edition

Equity markets in September shrugged off both hurricanes and geopolitical storms reaching new all-time highs during the month. Other than an early September spike in volatility linked to the Korean crisis, the VIX Index continued in the relatively narrow, low volatility band seen through much of the year. For the full month, the Dow Jones Industrial Average increased 2.08%, the S&P 500 index increased 1.93%, and the smaller cap weighted Russell 2000 increased a very strong 6.09%.

Trends

S&P 500 performance by sector during September was led by stocks in the energy and financials sectors which advanced 9.77% and 5.05%, respectively. The weakest performances in the month were posted by interest rate sensitive utilities down 3.00% followed by real estate which dropped 1.86%. On a one-year basis, the financials sector was the best performer with a 33.74% increase followed by information technology up 27.00%, while telecom service stocks have lagged the most with a yearly drop of 4.81%.

A shift in Fed policy was announced mid-September with the FOMC indicating that beginning in October, balance sheet normalization would commence. Furthermore, Chair Yellen indicated that although recent soft inflation numbers warrant a gradual pace for interest rate increases, there is a danger of moving too slowly saying "...it would be imprudent to keep monetary policy on hold until inflation is back to 2%." This view corresponds with expectations that rates will rise one more time before the end of 2017.

A key sign of the health of the economy was nudged higher with the Commerce Department raising the estimate for second quarter GDP growth from 3.0% to 3.1%. The uptick was linked to growth in business investment in structures at 7.0% versus the earlier estimate of 6.2%. Momentum appears to be continuing in Q3 with durable goods order for August up 1.7% fueled by growth in orders for commercial aircraft.

Outlook

Once again housing data is providing mixed signals as home price inflation may be weighing on activity. The quarterly S&P/Case-Shiller 20-city home price report ending July was released in late September showing further acceleration in prices which rose 5.8% versus the prior year. Cities in the western U.S. are seeing the highest housing price gains with Seattle leading the country up 13.5%. Chicago and Washington, D.C. were tied for the lowest price increases with each up 3.3%.

Perhaps reflecting the impact from rising home prices, both existing home sales and new home sales dropped in August according to the National Association of Realtors. Existing home sales declined 1.7% to a seasonally adjusted rate of 5.35 million while new homes sale slipped 3.4% to a 560,000 annual rate. In addition to prices, inventory may be weighing on the sector with inventory dropping 2.1% to 1.88 million existing homes for sale.

Interest rates reversed the July and August downdraft in September, with a rebound in the 10-year treasury rate from 2.13% to end the month at 2.33%, a level not seen since early July. The rebound in rates appears to be tracking confidence in a tightening monetary policy with the potential for another move by the Fed to raise rates before year-end. The consensus forecast according to Bloomberg for the ten-year treasury yield at year-end 2017 is 2.39% which continues the declining trend in recent months including from last month's forecast of 2.52%, while still reflecting expectations for gradually rising interest rates this year.

We remain focused on high quality domestic-oriented equities and continue to think the long-term outlook remains favorable with a recovering GDP and jobs growth environment. This view is somewhat tempered by uncertain consumer behavior particularly given the dependency of the U.S. economy on consumer spending. In addition, we recognize there has been substantial recent strength in equity markets and view corrections as a normal part of long-term stock market behavior. We would also underscore there remain macroeconomic and geopolitical uncertainties that could impact near term results.

Market Highlights

- » Market Returns for September:
 - S&P 500 +1.93%
 - DJIA +2.08%
 - Russell 2000 +6.09%
- » Q2 GDP Revised to +3.1%
- » 10-Year Treasury 2.33%

Please see important disclosures in the Disclosure Section at the end of this document.

MARKET AND ECONOMIC STATISTICS

Market Indices:	9/29/2017	12/30/2016	% Change YTD	8/31/2017	% Change (Monthly)
S&P Composite	2,519.36	2,238.83	12.53%	2,471.65	1.93%
Dow Jones Industrials	22,405.09	19,762.60	13.37%	21,948.10	2.08%
NASDAQ Composite	6,495.96	5,383.12	20.67%	6,428.66	1.05%
Russell 2000	1,490.86	1,357.13	9.85%	1,405.28	6.09%
FTSE 100	7,372.76	7,142.83	3.22%	7,430.62	-0.78%
Shanghai Composite	3,348.94	3,103.64	7.90%	3,360.81	-0.35%
Nikkei Stock Average	20,356.28	19,114.37	6.50%	19,646.24	3.61%
Stoxx Europe 600	388.16	361.42	7.40%	373.88	3.82%
MSCI Emerging Markets	1,081.72	862.27	25.45%	1,087.70	-0.55%
MSCI Emerging Markets Small Cap	1,097.80	911.29	20.47%	1,098.91	-0.10%

Performance of S&P 500 by Industry:	% of Index as of 09/29/17	1 Month	3 Month	Year to Date	12 Months
Consumer Discretionary	11.83%	0.75%	0.48%	10.75%	12.82%
Consumer Staples	8.20%	-1.14%	-2.02%	4.44%	1.62%
Energy	6.06%	9.77%	6.03%	-8.62%	-2.62%
Financials	14.68%	5.05%	4.76%	11.01%	33.74%
Health Care	14.56%	0.86%	3.20%	18.75%	13.50%
Industrials	10.25%	3.84%	3.68%	12.32%	19.71%
Information Technology	23.17%	0.59%	8.28%	26.02%	27.00%
Materials	2.99%	3.33%	5.55%	14.09%	18.77%
Telecommunication Services	2.16%	3.52%	5.41%	-8.06%	-4.81%
Utilities	3.12%	-3.00%	1.97%	8.97%	8.11%
Real Estate	2.97%	-1.86%	0.10%	4.72%	-0.80%
S&P 500 (Absolute performance)	100.0%	1.93%	3.96%	12.53%	16.19%

Interest Rates:	9/29/2017	12/30/2016	YTD Change (Basis Points)	8/31/2017	% Change (Monthly)
Fed Funds Effective Rate	1.06%	0.55%	0.51	1.07%	-0.93%
Prime Rate	4.25%	3.75%	0.50	4.25%	0.00%
Three Month Treasury Bill	1.05%	0.56%	0.49	1.02%	2.74%
Ten Year Treasury	2.33%	2.44%	-0.11	2.12%	10.23%
Spread - 10 Year vs 3 Month	1.28%	1.89%	-0.60	1.10%	17.22%

Foreign Currencies:	9/29/2017	12/30/2016	% Change YTD	8/31/2017	% Change (Monthly)
Brazil Real (in US dollars)	0.32	0.31	2.9%	0.32	-0.4%
British Pound (in US dollars)	1.34	1.23	8.6%	1.29	3.6%
Canadian Dollar (in US dollars)	0.80	0.74	7.8%	0.80	0.1%
Chinese Yuan (per US dollar)	6.65	6.95	-4.2%	6.59	1.0%
Euro (in US dollars)	1.18	1.05	12.3%	1.19	-0.8%
Japanese Yen (per US dollar)	112.51	116.96	-3.8%	109.98	2.3%

Commodity Prices:	9/29/2017	12/30/2016	% Change YTD	8/31/2017	% Change (Monthly)
CRB (Commodity) Index	427.32	423.08	1.0%	435.64	-1.9%
Gold (Comex spot per troy oz.)	1280.15	1152.27	11.1%	1321.40	-3.1%
Oil (West Texas int. crude)	51.67	53.72	-3.8%	47.23	9.4%
Aluminum (LME spot per metric ton)	2102.00	1693.00	24.2%	2117.00	-0.7%
Natural Gas (Futures 10,000 MMBtu)	3.01	3.72	-19.3%	3.04	-1.1%

Economic Indicators:	8/31/2017	12/30/2016	% Change YTD	6/30/2017	% Change (Monthly)
Consumer Price Index	245.0	242.8	0.9%	243.8	0.5%
Producer Price Index	197.3	194.7	1.3%	196.8	0.3%
	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
GDP Growth Rate (Quarterly)	3.10%	1.20%	1.80%	2.80%	2.20%
Unemployment Rate (End of Month)	August: 4.4%	July: 4.3%	June: 4.4%	May: 4.3%	April: 4.4%

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.

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

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

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

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

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

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

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

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

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

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

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

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