

April 2018 Edition

**DAVENPORT
& COMPANY**
EQUITY RESEARCH

Tweets, Tariffs and Trade were all key market forces whipsawing equities in March which, ultimately, pushed down large cap indices for the month. Trump Tweets plus fears that import tariffs might brew a global trade war, seemed to propel traders to “sell first and ask questions later” against an uninspiring market backdrop. Despite this market turbulence, economic fundamentals continued to appear relatively strong supporting what we think could be a more constructive environment as the year progresses. Volatility, although not as extreme as in February, was elevated relative to the one-year pattern and the VIX Index ended the month over 20. For the full month, the Dow Jones Industrial Average decreased 3.7%, the S&P 500 index decreased 2.7%, and the smaller cap weighted Russell 2000 increased 1.1%.

Trends

S&P 500 performance by sector during March was led by stocks in the utilities sector up a strong 3.41% followed by the real estate sector which advanced 3.26%. The weakest performance in the month was posted by financials which dropped by 4.46% closely followed by materials down 4.45%. For the full year, the information technology sector was the best performer with a 25.98% increase followed by financials up 15.95%, while telecom services stocks have lagged the most with a yearly drop of 9.56%.

The Commerce Department significantly boosted the fourth quarter GDP growth estimate to 2.9% from 2.5%. The increase reflected stronger consumer spending and higher investment in business inventories. Consumer spending advanced 4.0% in the revised estimate which is up from 3.8% previously. The good news in Q4 may have slowed in Q1 with the Atlanta Fed GDPNow forecast slowing to just 1.8%. We note that adverse weather appears to have been a challenge in Q1 and could have impacted spending patterns in the quarter.

Housing data reports were mixed in March reflecting higher prices and mortgage rates against a tight supply backdrop. The Case-Shiller national home price index reported in late March covering the three months ending in January was up 6.2% versus the prior year. Higher home prices and mortgage rates represent an affordability road block to new buyers. Nevertheless, there were signs of life in housing with existing home sales in February up 1.1% year-over-year to a 5.54 million seasonally adjusted annual pace according to the National Association of Realtors. Limited supply of homes for sale also present a market challenge with the measure reaching the lowest level for any February on record at down 8.1% versus the prior year.

Outlook

As expected, the Fed under new Chairman Jerome Powell tacked a quarter percentage point on the Fed Funds rate mid-month highlighting that the economic outlook has recently strengthened while also pointing out moderating trends in household and business fixed investment. The Fed maintained the outlook for a total of three rate increases in 2018 while also noting that inflation continues to track below the 2% target on a 12-month basis. Against a choppy market backdrop, the ten-year treasury yield dropped from 2.86% at the start of the month to end March at about 2.74%. We note that ten-year rates are now up over 35 bps since the beginning of the year. With rates expected to further rise this year, the consensus forecast, according to Bloomberg, for the ten-year treasury yield at year-end 2018 is 3.14% which represents an increase from last month's forecast of 3.02% and reflects the consensus expectation of gradually rising rates in 2018.

We continue to look for benefits from tax reform as a catalyst that could move markets upward as earnings estimates continue to adjust higher. We also continue to monitor the interest rate environment given recent moves in key rates. We remain focused on high quality domestic-oriented equities and continue to think the long-term outlook remains favorable with an improving GDP and steady jobs environment. This view is somewhat tempered by uncertain consumer behavior particularly given the dependency of the U.S. economy on consumer spending. In addition, we view corrections as a normal part of long-term stock market behavior recognizing that there remain macroeconomic and geopolitical uncertainties that could impact results.

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

Market Highlights

- » Market Returns for March:
 - S&P 500 -2.7%
 - DJIA -3.7%
 - Russell 2000 +1.1%
- » Q4 GDP Revised +2.5%
- » 10-Year Treasury ~2.74%

MARKET AND ECONOMIC STATISTICS

Market Indices:	3/29/2018	12/29/2017	% Change YTD	2/28/2018	% Change (Monthly)
S&P Composite	2,640.87	2,673.61	-1.22%	2,713.83	-2.69%
Dow Jones Industrials	24,103.11	24,719.22	-2.49%	25,029.20	-3.70%
NASDAQ Composite	7,063.45	6,903.39	2.32%	7,273.01	-2.88%
Russell 2000	1,529.43	1,535.51	-0.40%	1,512.45	1.12%
FTSE 100	7,056.61	7,687.77	-8.21%	7,231.91	-2.42%
Shanghai Composite	3,160.53	3,307.17	-4.43%	3,259.41	-3.03%
Nikkei Stock Average	21,159.08	22,764.94	-7.05%	22,068.24	-4.12%
Stoxx Europe 600	370.87	389.18	-4.70%	379.63	-2.31%
MSCI Emerging Markets	1,169.27	1,158.45	0.93%	1,195.19	-2.17%
MSCI Emerging Markets Small Cap	1,192.57	1,195.44	-0.24%	1,211.86	-1.59%

Performance of S&P 500 by Industry:	% of Index as of 03/29/18	1 Month	3 Month	Year to Date	12 Months
Consumer Discretionary	12.67%	-2.46%	2.76%	2.76%	15.24%
Consumer Staples	7.65%	-1.32%	-7.77%	-7.77%	-3.57%
Energy	5.74%	1.55%	-6.58%	-6.58%	-3.06%
Financials	14.73%	-4.46%	-1.38%	-1.38%	15.95%
Health Care	13.71%	-3.21%	-1.63%	-1.63%	9.42%
Industrials	10.21%	-2.77%	-2.02%	-2.02%	11.67%
Information Technology	24.87%	-3.95%	3.20%	3.20%	25.98%
Materials	2.86%	-4.45%	-5.96%	-5.96%	8.40%
Telecommunication Services	1.92%	-1.12%	-8.68%	-8.68%	-9.56%
Utilities	2.86%	3.41%	-4.20%	-4.20%	-1.58%
Real Estate	2.78%	3.26%	-5.79%	-5.79%	-1.72%
S&P 500 (Absolute performance)	100.0%	-2.69%	-1.22%	-1.22%	11.77%

Interest Rates:	3/29/2018	12/29/2017	YTD Change (Basis Points)	2/28/2018	% Change (Monthly)
Fed Funds Effective Rate	1.68%	1.33%	0.35	1.35%	24.44%
Prime Rate	4.75%	4.50%	0.25	4.50%	5.56%
Three Month Treasury Bill	1.77%	1.45%	0.32	1.65%	6.97%
Ten Year Treasury	2.74%	2.41%	0.33	2.86%	-4.25%
Spread - 10 Year vs 3 Month	0.97%	0.96%	0.02	1.21%	-19.60%

Foreign Currencies:	3/29/2018	12/29/2017	% Change YTD	2/28/2018	% Change (Monthly)
Brazil Real (in US dollars)	0.30	0.30	0.2%	0.31	-2.0%
British Pound (in US dollars)	1.40	1.35	3.7%	1.38	1.9%
Canadian Dollar (in US dollars)	0.78	0.80	-2.4%	0.78	-0.4%
Chinese Yuan (per US dollar)	6.29	6.51	-3.3%	6.33	-0.7%
Euro (in US dollars)	1.23	1.20	2.5%	1.22	0.9%
Japanese Yen (per US dollar)	106.43	112.69	-5.6%	106.68	-0.2%

Commodity Prices:	3/29/2018	12/29/2017	% Change YTD	2/28/2018	% Change (Monthly)
CRB (Commodity) Index	436.88	432.34	1.1%	443.89	-1.6%
Gold (Comex spot per troy oz.)	1325.54	1303.05	1.7%	1318.38	0.5%
Oil (West Texas int. crude)	64.94	60.42	7.5%	61.64	5.4%
Aluminum (LME spot per metric ton)	1986.75	2256.00	-11.9%	2153.50	-7.7%
Natural Gas (Futures 10,000 MMBtu)	2.73	2.95	-7.5%	2.67	2.5%

Economic Indicators:	2/28/2018	12/31/2017	% Change YTD	1/31/2018	% Change (Monthly)
Consumer Price Index	249.6	247.9	0.7%	249.2	0.2%
Producer Price Index	202.1	201.3	0.4%	202.7	-0.3%

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
GDP Growth Rate (Quarterly)	2.90%	3.20%	3.10%	1.20%	1.80%
Unemployment Rate (End of Month)	February: 4.1%	January: 4.1%	December: 4.1%	November: 4.1%	October: 4.1%

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.

Certification: As the primary authors of this report, we hereby certify that the views and opinions expressed herein accurately reflect our personal views and opinions about the principal subject(s) of this report. Further, I hereby certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or personal views expressed herein.

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