

February was an eventful month for equity markets with a return of heightened volatility and the first market correction of 10%+ seen since early 2016. Spiking volatility appears to have coincided with the unwinding of inverse volatility trades adding to broad based market uncertainty. We have long been concerned by what had appeared to be complacency in the markets manifested by a prolonged period of low volatility. From that standpoint, the February pullback appears to have represented a healthy re-adjustment. The VIX Index, which measures market volatility, began February at about 13 and spiked to over 50 on the 6th before retracing gains back to near 20 by month-end. For the full month, the Dow Jones Industrial Average decreased 4.3%, the S&P 500 index decreased 3.9%, and the smaller cap weighted Russell 2000 decreased 4.0%.

Trends

Every S&P 500 sector declined during February with the smallest decrease in the information technology sector which was down just fractionally at -0.1%. The weakest performance in the month was posted by the energy sector which dropped by 11.3% followed by consumer staples down 7.8%. For the past year, the information technology sector was the best performer with a 34.4% increase followed by consumer discretionary up 20.4%, while telecom services stocks have lagged the most with a yearly drop of 9.7%.

Interest rates continued to be a key market focus during February as the rapid increases seen in January continued. The ten-year treasury yield jumped from 2.73% at the start of the month to end February at over 2.86%. We note that ten-year rates are now up about 40 bps in the past two months with the gains coinciding with views that inflation may accelerate during the year. Fed Chair Powell stated near the end of February that the “FOMC will continue to strike a balance between avoiding an overheated economy and bringing PCE price inflation to 2% on a sustained basis.” With rates expected to rise this year, the consensus forecast, according to Bloomberg, for the ten-year treasury yield at year-end 2018 is 3.02% which represents an increase from last month’s forecast of 2.86% and reflects the consensus expectation of gradually rising rates in 2018.

With strong demand and record low supply, housing prices continued to move higher in December as reported by Case-Shiller. U.S. home prices increased 6.3% reflecting gains across the nation’s twenty largest metropolitan areas. CNBC reported that the Case-Shiller index is now up 62% from the lows seen in the financial crisis while overall inflation has increased only 12.4%. Areas with the highest price increases include Seattle, Las Vegas and San Francisco while Chicago, Cleveland and Washington, D.C. saw the lowest gains.

Outlook

Both existing home sales and new home sales weakened in February according to data released by the National Association of Realtors and the Commerce Department. Existing home sales dropped by 4.8% versus the prior year while new home sales dropped 1%. Weak supply levels have been noted as factors impacting sales while affordability has been challenged through rising prices and higher mortgage rates. Bloomberg reports that average rates on 30-year fixed mortgage have increased sharply this year from around 4.0% at the end of December to over 4.40% at the end of February.

We continue to be optimistic that tax reform may be 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 acceleration 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 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.

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

Market Highlights

- » Market Returns for February:
 - S&P 500 -3.9%
 - DJIA -4.3%
 - Russell 2000 -4.0%
- » Q4 GDP Revised +2.5%
- » 10-Year Treasury ~2.86%

MARKET AND ECONOMIC STATISTICS

Market Indices:	2/28/2018	12/29/2017	% Change YTD	1/31/2018	% Change (Monthly)
S&P Composite	2,713.83	2,673.61	1.50%	2,823.81	-3.89%
Dow Jones Industrials	25,029.20	24,719.22	1.25%	26,149.39	-4.28%
NASDAQ Composite	7,273.01	6,903.39	5.35%	7,411.48	-1.87%
Russell 2000	1,512.45	1,535.51	-1.50%	1,574.98	-3.97%
FTSE 100	7,231.91	7,687.77	-5.93%	7,533.55	-4.00%
Shanghai Composite	3,259.41	3,307.17	-1.44%	3,480.83	-6.36%
Nikkei Stock Average	22,068.24	22,764.94	-3.06%	23,098.29	-4.46%
Stoxx Europe 600	379.63	389.18	-2.45%	395.46	-4.00%
MSCI Emerging Markets	1,195.19	1,158.45	3.17%	1,254.59	-4.73%
MSCI Emerging Markets Small Cap	1,211.86	1,195.44	1.37%	1,264.27	-4.15%

Performance of S&P 500 by Industry:	% of Index as of 02/28/18	1 Month	3 Month	Year to Date	12 Months
Consumer Discretionary	12.68%	-3.56%	7.75%	5.35%	20.39%
Consumer Staples	7.55%	-7.84%	-4.70%	-6.54%	-2.97%
Energy	5.51%	-11.34%	-3.65%	-8.01%	-5.59%
Financials	15.03%	-2.95%	5.11%	3.22%	17.84%
Health Care	13.78%	-4.63%	0.86%	1.63%	12.41%
Industrials	10.23%	-4.25%	2.56%	0.78%	13.97%
Information Technology	25.15%	-0.11%	7.41%	7.45%	34.44%
Materials	2.90%	-5.47%	0.13%	-1.59%	13.65%
Telecommunication Services	1.88%	-7.05%	-2.32%	-7.65%	-9.67%
Utilities	2.68%	-4.39%	-13.25%	-7.36%	-5.31%
Real Estate	2.60%	-6.96%	-9.68%	-8.77%	-6.26%
S&P 500 (Absolute performance)	100.0%	-3.89%	2.50%	1.50%	14.82%

Interest Rates:	2/28/2018	12/29/2017	YTD Change (Basis Points)	1/31/2018	% Change (Monthly)
Fed Funds Effective Rate	1.35%	1.33%	0.02	1.34%	0.75%
Prime Rate	4.50%	4.50%	0.00	4.50%	0.00%
Three Month Treasury Bill	1.65%	1.45%	0.20	1.43%	15.50%
Ten Year Treasury	2.86%	2.41%	0.46	2.71%	5.75%
Spread - 10 Year vs 3 Month	1.21%	0.96%	0.25	1.27%	-5.18%

Foreign Currencies:	2/28/2018	12/29/2017	% Change YTD	1/31/2018	% Change (Monthly)
Brazil Real (in US dollars)	0.31	0.30	2.2%	0.31	-1.7%
British Pound (in US dollars)	1.38	1.35	1.8%	1.42	-3.0%
Canadian Dollar (in US dollars)	0.78	0.80	-2.0%	0.81	-4.0%
Chinese Yuan (per US dollar)	6.33	6.51	-2.7%	6.29	0.7%
Euro (in US dollars)	1.22	1.20	1.6%	1.24	-1.8%
Japanese Yen (per US dollar)	106.68	112.69	-5.3%	109.19	-2.3%

Commodity Prices:	2/28/2018	12/29/2017	% Change YTD	1/31/2018	% Change (Monthly)
CRB (Commodity) Index	443.89	432.34	2.7%	443.44	0.1%
Gold (Comex spot per troy oz.)	1318.38	1303.05	1.2%	1345.15	-2.0%
Oil (West Texas int. crude)	61.64	60.42	2.0%	64.73	-4.8%
Aluminum (LME spot per metric ton)	2132.00	2268.00	-6.0%	2219.50	-3.9%
Natural Gas (Futures 10,000 MMBtu)	2.67	2.95	-9.7%	3.00	-11.0%

Economic Indicators:	1/31/2018	12/31/2017	% Change YTD	12/31/2017	% Change (Monthly)
Consumer Price Index	249.2	247.9	0.5%	247.9	0.5%
Producer Price Index	202.7	201.3	0.7%	201.3	0.7%

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
GDP Growth Rate (Quarterly)	2.50%	3.20%	3.10%	1.20%	1.80%
Unemployment Rate (End of Month)	January: 4.1%	December: 4.1%	November: 4.1%	October: 4.1%	September: 4.2%

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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