

Likes/Dislikes - July 9th, 2021

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Below are Evergreen Gavekal's Likes/Dislikes for July 9th, 2021.

OUR CURRENT LIKES AND DISLIKES

Changes highlighted in **bold**.

The big news recently was the Fed's supposed shift to hawkish. Unquestionably, it conveyed a slight tone change and this has caused a mild stock market pull-back. For hard asset/inflation hedge securities the decline has been more severe, accelerating a correction, after massive rallies, that has been in place in recent weeks (excluding energy, which was been extremely resilient).

The Fed's actions are a different story. If taken at its word, there will be no rate hikes until next year—at the earliest. Moreover, it will continue to fabricate \$120 billion per month in order to buy treasuries and US government-backed mortgages (i.e., on-going debt monetization). This is despite that the Fed is now acknowledging what this newsletter has been saying for months: The US economy is rapidly gaining momentum, as well as that both employment and wage growth should be extremely robust as the year progresses. Nonetheless, it is maintaining its incredibly loose monetary policies (printing money to buy mortgages in a white-hot housing market is particularly bizarre).

In some ways, this event is similar to what happened back in 2013 during the so-called Taper Tantrum. Back then, bonds and high-income securities were punished when former Fed-head Ben Bernanke implied the Fed might reduce, or taper, its (much smaller) money printing program. This created an excellent buying opportunity in yield issues which Evergreen wrote up bullishly at the time.

Presently, we believe this is a “fat pitch” chance to pick up the pace of gradual accumulation of US dollar debasement winners such as the main gold miner ETF, which is now down 13% since late May. A wide range of other natural resource-oriented securities have also come down hard and appear to be excellent long-term values. This includes those in the aluminum, graphite, and agricultural sub-sectors,

as well as, potentially, platinum plays.

Related to this, the *Wall Street Journal* reported today that consumer borrowing is at record levels. This strongly suggests that the velocity of money should accelerate markedly before long. If so, it is likely to be highly supportive of the market sectors which benefit from economic strength and rising inflation. Based on the trillions the Fed has created, and are already in the financial system, rising money velocity could have significant implications, such as by making the recent inflation spike much more than transitory.

LIKE

- Large-cap growth. (For the most part, there continues to a better risk/reward ratio with growth-at-a-reasonable-price—GARP—type issues; as with the overall US stock market, bargains are increasingly scarce.)
- **Certain international developed markets, especially Japan (The Japanese market long been an *EVA* favorite. Since mid-February, it has experienced a mild correction, increasing its attractiveness. Many Japanese blue chip stocks continue to trade at very modest price levels, especially relative to their sales per share; i.e., they are selling for bargain price-to-sales ratios.)**
- Publicly-traded pipeline partnerships, i.e., MLPs and other mid-stream energy securities. (MLPs have had an extraordinary run since last November and are now up over 45% for 2021, including distributions, roughly tripling the return of the S&P 500; this tremendous outperformance is despite a recent mild correction.)
- Gold-mining stocks (please see above)
- **Gold (Bullion itself is bouncing back nicely; the miners are likely to follow).**
- **Silver (It has been lagging gold lately and may be poised to run once again.)**
- **Select international blue chip oil stocks (Based on the enormity of the rally since early November, some reduction of energy exposure might be prudent; recently, even a number of the energy laggards have been trending up. We continue to believe oil prices will grind higher, possibly much higher, over the course of the year. Crude gave up some ground this week but is bouncing today, with Brent once again inching about \$75.)**

- Short-term investment grade corporate bonds (1-4 year maturities; favor shorter maturities due to rising inflation risks because of the likelihood that the Fed and the Treasury are over-stimulating the US economy.)
- Emerging market (EM) bonds in local currency (focusing on stronger countries)
- Large-cap value (In many cases, these have also been casualties of the Fed's alleged hawkishness; consequently, it's reasonable to step up the buying pace with some issues in this style category.)
- High-dividend equities with *safe* distributions (A number of these have come down sharply, too, as a result of Taper Tantrum 2.0.)
- Most cyclical resource-based stocks (Previously, we recommended some profit-taking which turned out to be decent advice; now, as described above, it's appropriate to look for bargains in these issues.)
- BB-rated corporate bonds (Buy more selectively after a spectacular rally and favor shorter maturities.)
- Canadian REITs (Avoid office issues for now.)
- **South Korean Equities (This is another area in which to be less aggressive given how much this market has risen since late March; as we noted in early December, the South Korean index broke out to a new all-time high and since then has popped another 16%. From the initial early November break-out point, it is up 30% despite a mild 2% rise so far this year.)**
- **Uranium and uranium producers (The world's leading uranium miner has doubled since early November, validating our positive stance on this sub-sector.)**
- **Certain "Virus Victim" equities such as refiners, homebuilders, and select retail stocks (After a powerful rally in homebuilders and certain retailers, be more selective; subsequent to breaking support and falling initially post that break, refiners have roared back on the vaccine news. Look to buy refiners during a pull-back as they should be beneficiaries of the economy re-opening; some appear more attractive after getting hit in recent weeks.)**
- Investment-grade floating rate corporate bonds (Despite a vigorous rally in recent months, there remains decent long-term value in this bond market niche.)
- The higher quality mortgage REITs (These have risen materially from our initial

recommendation; based on their continuing appreciation, further profit-taking is prudent. These have also retreated lately but remain fairly fully priced.)

- Renewable Yield Cos (These Green Energy, MLP-like securities have retreated, in some cases considerably; with the leading renewable Yield Co having corrected even further, we are moving this group to Like. However, buy less aggressively after a recent bounce-back.)
- Floating rate bank loans (Moving these up another notch due to the gathering strength of the US economy—reducing default risks—and their floating-rate structure that mitigates inflation risks.)

NEUTRAL

- A wide range of high-income securities, including preferred stocks (Preferred stocks look less attractive with prices up, yields down, and inflation risks on the rise.)
- Copper producers. (Moving to neutral due to the huge rally by this group; we previously advised profit-taking but now, with the leading US copper producer down 19%, some nibbling might be appropriate.)
- Intermediate-term investment-grade corporate bonds, yielding approximately 2.5% (Now rated neutral due to our increasing inflation concerns and the paucity of attractive yields.)
- Mid-cap value
- Emerging stock markets; however, a number of Asian developing markets look undervalued (Caveat investor: These are much less bargain-rich than they were last fall).
- US-based Real Estate Investment Trusts (REITs) (It is critical to be highly selective with this sector; however, the accelerating reopening of the US economy should relieve pressure on some of the most impaired sub-sectors of the REIT universe—unless they are exposed to cities and/or states that are seeing significant population and business outflows.)
- Cash
- Canadian dollar-denominated short-term bonds (Thanks to a rebound in the Canadian dollar, these have provided solid returns in recent months; some profit realization may be prudent.)
- One- to two-year Treasury notes
- Traditionally “safe” sectors such as Staples and Utilities (Most utilities have had healthy price bumps lately; consequently, they are less appealing.)
- Virus Victors (I.E, those companies that have benefitted from global lockdowns and now sport premium valuations; many have retreated significantly of late—see CLX as an example.)

- Small-cap value (Moving to neutral due to high valuations and the massive appreciation since last fall; additionally, the overall market looks vulnerable to a correction and small caps often suffer the most during dips. However, small cap value appears, appropriately enough, to be a far better value than small cap growth, per the below trading recommendation.)
- **European banks (Shifting these back to neutral due to improving vaccination prospects on the Continent, even though eurocrats continue to bungle the roll-out. Still-prevailing negative interest rates in Europe are very hard on bank profitability.)**

DISLIKE

- **Intermediate-term Treasury bonds (Moving these to Dislike due to rising risks of another price down-leg caused by the realization that after-inflation yields are becoming increasingly negative. The recent rally by the 10-year T-note has pushed its real yield even more into the red.)**
- **Small-cap growth (Since late-February, around the time of our negative call on this style, it is down roughly 7%.)**
- **As a new tactical recommendation related to the above bullet, investors seeking to reduce equity exposure might want to buy an inverse small-cap ETF. One of these offers twice the upside—and downside—of the small cap index; i.e., should small caps fall 10%, this ETF will rise roughly 20% and vice versa. Thus far, this trade is roughly breakeven. (Small cap growth has been weaker than small cap value recently.)**
- **Long-term treasury bonds (These are in the dislike category due to both Evergreen's and Gavekal's rising conviction in a looming burst of inflation; despite a rally over the last couple of months, long-treasuries remain down 5% on a total return basis this year.)**
- **Long-term investment grade corporate bonds (These are viewed negatively because of the narrow yield gap, or spread, between corporate debt and treasuries combined with our escalating inflation fears. However, there are a smattering of long-term issues that still offer attractive yields. Long-term corporate bonds are now down -0.9%, including cash flow, for the year.)**
- Most municipal bonds (Munis have bounced a bit lately but we remain negatively disposed to longer issues.)

- **US dollar (The dollar has rebounded sharply over the last few weeks; however, its long-term outlook appears very challenging and it remains overvalued versus many currencies, especially those in Asia.)**
- Many semiconductor tech stocks (We do have a number of semi holdings for Evergreen client; however, these were typically acquired far lower than where they trade today and this space appears generally overvalued with a few exceptions. This pricey group has recently experienced a mild dip.)
- Mid-cap growth
- Lower-rated junk bonds
- Green energy stocks (Note, this refers to equities not the Renewable Yield Cos; most of the former had explosive up-moves in 2020 and into this year; lately, though, many green energy plays have been hit hard.)
- SPACs (Special Purpose Acquisition Companies, which are structured to greatly favor insiders and disadvantage retail investors. A growing number of SPACs are struggling in the market lately; perhaps, this bubble is bursting.)
- Most new issues (Earlier this year, the IPO market was as frothy as I've seen it other than the giddiest days of the dot.com era; there are also signs the new-issue craze is fading.)
- **Despite a disastrous February, most of the popular Reddit/WallStreetBets stocks still have material downside; the recent frenetic rally in some of these—unjustified by fundamentals—creates another shorting opportunity for the risk-tolerant. Lately, these are once again fading.**

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