

Likes/Dislikes - June 12, 2020

Below are Evergreen Gavekal's Likes/Dislikes for June 12, 2020.

OUR CURRENT LIKES AND DISLIKES

Changes highlighted in **bold**.

(Special note: one of the risks we have recently warned about emerged with a vengeance this week—a spike in COVID infections as the economy emerges from its foxhole. The US stock market had clearly become extremely over-bought until yesterday’s plunge. Due to the extreme volatility occurring presently, purchases should be made even more carefully than in less chaotic conditions. Taking some profits into rallies is also likely a prudent approach.)

LIKE

- Large-cap growth (focus on lower P/E issues within this style; i.e., “growth at a reasonable price”)
- Some international developed markets, especially Japan
- **Publicly-traded pipeline partnerships, i.e., MLPs and other mid-stream energy securities. (After more than doubling off the recent low, some selling may be appropriate; however, excellent long-term total return potential remains.)**
- **Gold-mining stocks (both the miners and the bullion itself have rallied lately and could correct near-term; however, the future for them is very bright based on the trillions of fake money being created and unprecedented government spending. Further, there has been a mild pull-back in the miners, offering a decent entry point for those with little or no exposure)**
- Gold (same as with miners)
- Silver (decelerate buying after the recent sharp rally; once again, longer term the price should rise much further)
- **Select international blue chip oil stocks (a big up-move of late, notwithstanding yesterday’s drubbing, leads us to advise backing off on purchases for now; as with precious metals and MLPs, however, excellent future returns look probable)**
- Short-term investment grade corporate bonds (1-4 year maturities)
- Emerging market (EM) bonds in local currency (focusing on stronger countries)
- **Large-cap value (buy more carefully due to the surge in recent weeks)**
- Copper producers (the damaging effect of the coronavirus on Copper demand could be high in the short term, but the fundamentals of Copper supply/demand remain attractive long term.)

- Copper could also have a very sharp rally as virus fears are calmed)
- High-dividend yield equities with *safe* distributions (as interest rates disappear, investors will go searching for yield)
 - Most cyclical resource-based stocks (buy more carefully but considerable long-term upside remains as many of these are beneficiaries of inflation/pricing power due to supply chain disruptions)
 - BB-rated corporate bonds (the Fed has now announced that it will buy high-yield—aka, junk--bonds, thus providing direct support to this asset class; it's a first for any global central bank and it intends, of course, to do this with fabricated money)
 - A wide range of high-income securities, including preferred stocks (many of these have surged, as well, so buy less aggressively)
 - Canadian REITs (avoiding office and industrial issues for now)
 - Very high quality Intermediate & Long Term municipal bonds with strong credit ratings (both intermediate-term and long-term muni bonds have had big rallies with the Fed entering the market and we are less enthusiastic, as a result)
 - **South Korean Equities (another area in which to be less aggressive given how much this market has risen since late March)**
 - Long-term investment grade corporate bonds (the Fed's declared intention to buy corporate bonds has made these much less appealing though some bargains remain)
 - Small-cap value
 - Intermediate-term investment-grade corporate bonds, yielding approximately 4% (this is another corner of the bond market the Fed is actively supporting)
 - Uranium & Uranium producers
 - Certain "Virus Victim" equities such as refiners, homebuilders, and select retail stocks. (after a powerful rally this week, be more selective)
 - Investment-grade floating rate corporate bonds (due to a severe sell-off, due to both the Fed cutting short-term rates close to zero and overall spread widening, there are a number of attractive issues in this bond market niche)

NEUTRAL

- Solar Yield Cos (moving to neutral as a result of the powerful up-move since March)
- Mid-cap value
- Emerging stock markets; however, a number of Asian developing markets look undervalued
- US-based Real Estate Investment Trusts (REITs) (It is critical to be highly selective with this sector; fundamentals for many REITs are likely to be very challenged.)
- Cash
- Long-term Treasury bonds
- Canadian dollar-denominated short-term bonds
- Lower-rated junk bonds
- Intermediate-term Treasury bonds
- One- to two-year Treasury notes

- Traditionally “safe” sectors such as Staples and Utilities

DISLIKE

- European banks (despite the recent rally, the long-term outlook remains poor as the ECB continues to suppress interest rates; in addition, there continues to be a non-trivial risk the EU begins to break apart, recent fiscal union news notwithstanding)
- **US dollar (The unprecedented size of the rescue package funded by debt is likely to put downward pressure on the dollar once this crisis passes; it may be in the process of breaking down)**
- Many semi-conductor tech stocks which have surged in price over the last six months despite rapidly building inventories as customers contend with lack of demand.
- Small-cap growth
- Mid-cap growth
- Floating rate bank loans (the junk variety; spreading bankruptcies and a big price recovery push this asset class back down into the dislike category).

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