

## Likes/Dislikes - May 22, 2020

Below are Evergreen Gavekal's Likes/Dislikes for May 22, 2020.

---

### OUR CURRENT LIKES AND DISLIKES

Changes highlighted in **bold**.

**(Special note: due to the rising tensions between the US and Chinese governments, which might intensify between now and the November presidential election, investors may want to adopt a more defensive posture. There are also obvious risks for a spike in COVID infections as the American economy emerges from lock-down.)**

#### 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 (MLPs and other mid-stream energy securities. Distribution cuts are spreading due to the unprecedented collapse in energy demand. 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)
- 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
- Short-term investment grade corporate bonds (1-4 year maturities)
- Emerging market (EM) bonds in local currency (focusing on stronger countries)
- Large-cap value
- 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)**
- 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
- **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 (a recent pull-back has created a decent entry point)
- 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 with homebuilders)**

## 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 (these are ominously making new all-time lows)
- Investment-grade floating rate corporate bonds (reducing exposure as a result of the Fed's rapid rate cuts down to essentially zero)
- 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)

- 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).*

*\* Credit spreads are the difference between non-government bond interest rates and treasury yields.*

(Note: based on the intense damage done to nearly all risk-assets lately, our negativity has eased even on the above “dislikes”)

*DISCLOSURE: This material has been prepared or is distributed solely for informational purposes only and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Any opinions, recommendations, and assumptions included in this presentation are based upon current market conditions, reflect our judgment as of the date of this presentation, and are subject to change. Past performance is no guarantee of future results. All investments involve risk including the loss of principal. All material presented is compiled from sources believed to be reliable, but accuracy cannot be guaranteed and Evergreen makes no representation as to its accuracy or completeness. Securities highlighted or discussed in this communication are mentioned for illustrative purposes only and are not a recommendation for these securities. Evergreen actively manages client portfolios and securities discussed in this communication may or may not be held in such portfolios at any given time.*