

Likes/Dislikes - May 28st, 2021

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Below are Evergreen Gavekal's Likes/Dislikes for May 28, 2021.

OUR CURRENT LIKES AND DISLIKES

Changes highlighted in **bold**.

As an overarching recommendation, present market conditions have become so hyper-bullish that this author is suggesting significant profit-taking; related to this, new buys should be limited to those securities that offer a compelling risk/reward proposition. Gold miners are an example of the latter. After a sharp correction in the wake of their spectacular run-up from March to August of last year, the main gold mining ETF, GDX, has surged 33% since March 1st and is now up slightly for 2021. Thus, while still attractive on a long-term basis, being more selective with this group is prudent.

Regarding the overvalued parts of the US stock market—and there remain many of those—a bifurcation has occurred recently. Some have experienced powerful rallies, especially in the case of the infamous meme stocks like Gamestop and AMC Entertainment. The latter is now up 1400% for the year and 150% this week alone! Consequently, these highly speculative issues look poised to do another faceplant. Other high-expectation equities, however, have not rebounded. For example, the poster child for hot growth stocks—the ARKK Innovation fund is still off 27% from its February peak. SPACs and IPOs continue to look like bubbles in the process of bursting.

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 40% for 2021, including distributions, nearly quadrupling the return of the S&P 500; this long-disfavored asset class continues to recover to post-Covid meltdown highs.)
- Gold-mining stocks (The gold miners were hit hard earlier this year after a stellar 2020; this weakness caused us to urge re-accumulation and since early March they've been on a tear, as noted above. This has rewarded those who took our advice to increase exposure during their correction. We believe there is considerably more future upside for these issues.)
- Gold (It has been acting better recently, as well. Any attempt by the Fed to employ "yield curve control", such as by forcing down longer-term interest rates, could ignite the precious metals complex once again.)
- Silver (It has had a wild ride in recent months due to the "Reddit Rebels". After a sharp correction once the ardor of these hot-money traders ebbed, it is once again moving higher, now up 4% on the year. Should US inflation accelerate, silver has considerable long-term upside potential; additionally, around 10% of silver demand is from solar panel fabrication.)
- 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.)
- 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 (Value stocks, such as energy and financial issues, have been the biggest winners from the vaccine news; accordingly, buy somewhat more cautiously—and possibly do some trimming—even though this style is likely to be among the main beneficiaries of the reflation/reopening trends in 2021.)

- High-dividend equities with *safe* distributions (Despite the sharp recent rise in treasury yields, investors still have a desperate need for cash flow and many equities provide much higher yields than bonds; as a result of this year's run-up in treasury yields, some high-dividend payers have pulled back to more attractive levels, though the number of bargains is shrinking.)
- Most cyclical resource-based stocks (These have also experienced powerful up-moves; thus, some profit-taking is appropriate.)
- 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 12%. From the initial early November break-out point, it is up 34% despite moving sideways so far this year.)
- Uranium and uranium producers (The world's leading uranium miner has more than doubled since early November, validating our positive stance on this sub-sector; thus, additional profit-taking is prudent. Evergreen closed out its position in the planet's biggest U2 miner recently, albeit a bit prematurely.)
- 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.)
- 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; recently, they have continued to rise so some profit-taking is reasonable.)

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; profit-taking is advisable.)

- Renewable Yield Cos (These Green Energy, MLP-like securities have retreated, in some cases considerably; thus, resume buying in certain names.)
- 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.)
- Floating rate bank loans (We upgraded these to neutral due to the prospects of a strong economy this year, lowering default risks. Also, their floating rate nature is a solid inflation hedge.)
- 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, value looks better than small caps in general, 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, but the steeper yield curve—longer rates rising much faster than shorter rates—occurring around the world is a major positive.)

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.)
- **Small-cap growth (Since late-February, around the time of our negative call on this style, it is down roughly 11%.)**
- 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 mildly in the black. (Small cap growth has been much 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; recently, long treasuries have been thumped, justifying our prior concerns.)
- 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 -6.35% total return for the year.)
- Most municipal bonds (Munis have been hit fairly hard lately, validating our previous caution.)
- US dollar (The dollar is once again on the defensive; additionally, 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 have truly gone ballistic. Many green energy plays have been slammed in recent weeks.)
- 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.**

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