

Likes/Dislikes - October 30, 2020

Below are Evergreen Gavekal's Likes/Dislikes for October 30, 2020.

OUR CURRENT LIKES AND DISLIKES

Changes highlighted in **bold**.

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.)
- Certain international developed markets, especially Japan (Note Warren Buffett's recent foray into this market.)
- Publicly-traded pipeline partnerships, i.e., MLPs and other mid-stream energy securities. (Resume accumulation after the recent decline of roughly 25%)
- Gold-mining stocks (Based on this week's sharp sell-off, miners are once again in an accumulation zone.)
- Gold (Same as with miners.)
- Silver (Same as with gold-miners and gold.)
- 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 (After this week's air-pocket, more buying is appropriate including financial stocks which have given up their recent gains.)**
- Copper producers. (Expect a near term correction after a sharp rally off the lows. 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.)
- High-dividend 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 and Fed debt monetization.)
- BB-rated corporate bonds (Buy more selectively after a spectacular rally.)
- A wide range of high-income securities, including preferred stocks (Many of these have surged, as well, so buy less aggressively.)
- 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.)

- **Small-cap value (For those light in small cap stocks, use the recent dip to add some exposure.)**
- Intermediate-term investment-grade corporate bonds, yielding approximately 2.5% (This is another corner of the bond market the Fed is actively supporting; attractive yields are becoming harder to come by, however.)
- Uranium and uranium producers (These now offer a more attractive entry point after the recent correction caused by supply-side announcements; their pull-back looks to have ended with a resumed rally probable based on a very tight supply/demand condition with U2.)
- **Certain “Virus Victim” equities such as refiners, homebuilders, and select retail stocks (After a powerful rally, be more selective; however, refiners have broken multi-year support. Exit for now but look to re-enter; there is abundant long-term upside.)**
- 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; therefore, less aggressive buying is appropriate even though we continue to like the multi-year outlook.)

NEUTRAL

- Renewable Yield Cos
- 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
- Intermediate-term Treasury bonds
- One- to two-year Treasury notes
- Traditionally “safe” sectors such as Staples and Utilities
- Virus Victors (I.E, those companies that have benefitted from global lockdowns and now sport premium valuations.)
- European banks (Despite the sub-zero interest rate environment, the ECB has introduced new rules that create a less onerous burden on the banking system resulting from negative interest rates. However, material risks remain.)
- Small-cap growth
- Long-term investment grade corporate bonds (Following intervention by the Fed, this asset class experienced a powerful rally off the March lows and current yields are no longer attractive. Inflation concerns could also eventually become an issue at such low yields.)

DISLIKE

- Most municipal bonds (Both intermediate-term and long-term muni bonds have had big rallies with the Fed entering the market, rewarding those who followed our buy recommendation earlier. We are now moving munis to dislike due to our longer-term inflation concerns and also as a result of the present paltry yields.)
- US dollar (The recent snap-back in the greenback provides an opportunity to shift into other currencies or enter hedge positions against the dollar. Its long-term outlook appears very challenging and it remains materially overvalued.)
- **Many semi-conductor tech stocks (Despite the recent pull-back we generally find this sector unattractive with some notable exceptions; however, even in these cases we typically acquired them far lower than they trade today.)**
- Mid-cap growth
- Floating rate bank loans (This refers to the junk variety; spreading bankruptcies and a big price recovery push this asset class back down into the dislike category.)
- Lower-rated junk bonds

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