

## Likes/Dislikes – December 24th, 2021

Below are Evergreen Gavekal's Likes/Dislikes for December 24th, 2021.

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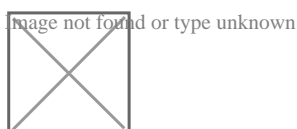
### A Change Comin' On

Soon it will be a new year and it's also going to be time for a new *EVA* look...and name! While the latter is still uncertain at this point, our intent is to radically alter the format of the former Likes/Neutrals/Dislikes section.

You may have noticed that we've been recently referring to the Likes, etc, section as "Positioning Recommendations" and the odds are we'll stick with that heading forward. Our plan is to display each of the three sections in such a way that the basic continuing recommendations are listed horizontally and with much less detail for each one of them. Only our strongest opinions will be shown above the rest of the positioning recommendations. The idea is to focus on those and make this entire section more reader friendly.

Once we begin running it in the new format, feel free to let us know how you feel about the changes. We'll pay attention to modification suggestions, at least when there are a number along the same lines.

As far as this week's update, it's been a bit of a stealth rally this week. The catalyst has been additional news that the extremely transmissible Omicron variant remains benign from a symptom severity standpoint. If you've been reading the last few issues of our Positioning Recommendations section, the old Likes/Neutrals/Dislikes, you're aware that our primary expert source on all things Covid related has been anticipating this outcome. Images such as the below lend credence to that sunny view, despite the considerable disruption this latest variant has caused.



Regardless, most market sectors that are considered to track the economy's up and downs remain sharply lower, in most cases, from where they traded earlier in the year. Omicron isn't the only culprit; the Delta variant that went viral in early summer has also been a key depressant. It continues to be this author's view that Covid news should improve dramatically as 2022 unfolds. Accordingly, I believe the stock market's best risk/reward opportunities reside within the "virus victim" sectors, with energy remaining my favorite way to play this probable second reopening phase rally. The energy sub-sector of MLPS/Midstream also looks highly attractive in that regard.

As previously noted, tax-loss selling is likely aggravating the weakness in stocks that have been hit by Delta and Omicron lock-down fears. Based on history, this downside pressure should now be largely exhausted.

Certain international markets have also been beaten up because of the one-two punches from Delta and Omicron. Those continue to be appealing destinations for fresh capital and/or funds

fleeing the negative after-inflation yields of nearly all bonds, at least of the US variety. Foreign bonds also appear attractive in many cases. For retail investors, ticker symbols TEI and AGOV are worthy of investigation in that regard.

To close this short note, the entire Evergreen team wishes you a happy and, especially these days, healthy Holiday Season!

## **Positioning Recommendations**

**(Note: there are very few changes this week.)**

### **LIKE**

- Large-cap growth. (Some of the Teflon mega-cap issues have begun to crack of late. The better risk/reward ratios, however, can be found in large-cap names that aren't in the mega category.)
- Certain international developed markets, especially Japan (Use the recent pull-back for adding to or initiating position in ETFs like EWJ. The Japanese market should be a beneficiary of overseas investors pulling capital out of China.)
- Publicly traded pipeline partnerships, i.e., MLPs and other mid-stream energy securities. (Buy on weakness! They look poised for their usual late December, January rally.)
- Gold-mining stocks (Ditto!)
- Gold (The miners appear far more undervalued at this point.)
- Silver (It has more snap-back potential than gold currently.)
- Select international blue chip oil stocks (Again, it's time to be a buyer for long-term, contrarian investors.)
- 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, particularly in Asia)
- Large-cap value (Use Omicron-driven weakness to accelerate accumulation especially in more cyclical companies.)
- High-dividend equities with *safe* distributions (These, too, have been hit; thus, add selectively though they lack the rebound potential of more aggressive issues, outside of economically-sensitive areas.)
- Most cyclical resource-based stocks (Buy more aggressively.)
- 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 (S. Korea remains one of my favorite markets.)
- Certain "Virus Victim" equities such as refiners, homebuilders, and select retail stocks (Certain retailers look extremely attractive right now, especially one that is based in Seattle with a famously generous return policy.)
- Investment-grade floating rate corporate bonds (Despite a vigorous rally this year, there remains decent long-term value in this bond market niche.)
- The higher quality mortgage REITs (Previously, we had recommended profit-taking; use recent weakness for re-accumulation.)
- Floating rate bank loans (Although GDP growth this quarter came in much slower than Q2, this should be a pause not a reversal. Thus, the still healthy US economy reduces default risks and the floating-rate structure of bank loans mitigates inflation risks.)

- **Copper producers.** (The largest US copper producer has declined about 7% from its summer peak though it has rallied nearly 35% since its fall low. It continues to have long-term appeal due to copper's critical role in EVs and their batteries.)
  - A relatively new sector recommendation is healthcare stocks. Many have corrected and are trading at alluringly attractive valuations, often with lush dividend yields. (Use the recent weakness in some pharma names to accumulate; however, be selective as some have experienced strong rallies recently.)
  - For those looking to for downside hedges, one of my personal favorite shorts is the Indian stock market. Its valuation looks indefensibly inflated.
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- Uranium and uranium producers (There are better opportunities elsewhere for now.)
  - Renewable Yield Cos (Based on the hefty rally that has occurred with this group in recent months, justifying our buy rating on them earlier this year, we are downgrading them to neutral; some profit-taking is reasonable despite bright long-term prospects.)
  - 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. As with bonds, we prefer the floating-rate variety.)
  - Intermediate-term investment-grade corporate bonds, yielding approximately 2.25% (Now rated neutral due to our increasing inflation concerns and the paucity of attractive yields; they have been under pressure lately due to rising rates overseas and escalating inflation concerns.)
  - 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 a year ago. China is an exception; its market has been crushed creating interesting value plays for brave investors. However, it's continuing war on its best companies is a large and legitimate concern. Further, I would note key Chinese equities are breaking multi-year support.)
  - US-based Real Estate Investment Trusts (REITs) (It is critical to be highly selective with this sector; however, the reopening of the US economy, despite recent challenges, 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 (The recent yield spike makes these even more interesting—literally.)
  - One- to two-year Treasury notes
  - **Traditionally “safe” sectors such as Staples and Utilities** (There has been a mild pull-back in some utilities; thus, they are somewhat attractive at this point. However, rising inflation is typically a negative for this interest rate sensitive sector. Certain Staples stocks have been hard hit of late and offer decent upside, especially relative to their low risk.)
  - Virus Victors (I.E., those companies that have benefitted from global lockdowns and now sport premium valuations. Many have retreated significantly of late; Clorox, for example, remains down materially from its peak.)
  - **Small-cap value** (This style has corrected 5.9% of late; however, it has held up considerably better than its growth-oriented peer—see below.)
  - European banks (Shifting these back to neutral due to improving vaccination prospects on the Continent. Still-prevailing negative interest rates in Europe are very hard on bank

profitability.)

- Intermediate-term Treasury bonds (They have rallied lately due to pervasive negative sentiment—in other words, they were oversold—and Omicron-driven growth fears; longer-term, all distant maturity treasury bonds look decidedly unattractive.)
- **Small-cap growth (Since late-February, around the time of our negative call on this style, it is now down 9.8%; in fact, it has swooned by that amount in just the past month (down almost 10% since 11/8).**
- **Removing the short recommendation on small cap due to its recent correction. Small cap growth, however, continues to look vulnerable, especially should there be an oversold rally soon (which has happened to a degree this week).**
- 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 now faltering rally over the last few months, long-treasuries remain down 4.1% 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 have had a negative total return of -1.1% 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 rallied recently, pushing it up roughly 6.8% for the year. This is despite the fact that the US is running a trillion-dollar trade deficit and the Fed continues to fabricate money at over a \$1 trillion annualized rate. Thus, the dollar's long-term outlook appears very challenging and it remains overvalued versus many currencies, especially those in Asia.)
- Many semiconductor tech stocks (Semis have held up comparatively well during the shakeout; many of these names look extremely pricey and hence vulnerable.)
- Mid-cap growth
- Lower-rated junk bonds (For the first time ever, junk bonds "provide", on average, a yield below inflation; thus, their other moniker, high yield, no longer applies. In my view, the lowest rated junk bonds offer the worst/risk reward.)
- **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, especially the dodgiest issues like Lordstown Motors and Nikola. The recent new EV truck maker Rivian looks ludicrously overvalued; justifying that negativity, it has lost about 44% from its recent peak, down another 10% this week.)**
- SPACs (Special Purpose Acquisition Companies, which are structured to greatly favor insiders and disadvantage retail investors. The SPAC ETF has fallen 37% from its February highs, justifying our negative stance on this highly speculative slice of the market.)
- 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, even though some recent IPOs have had explosive moves...*if* you were able to attain shares at the initial offering price, which every few are. Be very careful about chasing these in the secondary market.)
- **Despite a disastrous February, most of the popular Reddit/WallStreetBets stocks still have material downside. (As noted above, my repeated bearish views on these lottery tickets have been vindicated, at least for now. Last week, I suggested selling**

**or shorting AMC into the Spiderman rally; this pop appears to be petering out.)**

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